

# NNN RICHES



THE  
ROAD  
TO

PASSIVE | REAL ESTATE | WEALTH

· JOEL S. OWENS ·

# NNN RICHES

PASSIVE | REAL ESTATE | WEALTH

Joel shares with us his keys to becoming a successful commercial real estate investor and broker in the world of triple net properties.

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Joel S. Owens

Illustrated by Jonathan Cunningham

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questions they have related to legal and business matters.

To all my

family  
friends  
clients  
and colleagues

who have inspired me to write this book.

Most important—

My wife Laurie is always  
a driving positive force  
in my life  
and the glue that holds our family together.  
Special thanks to her for all she does to enrich our lives.

To my son Ryan—

You are everything we ever dreamed of and more.  
You give us tons of happiness and joy.  
You inspire me to be a better father, a better person,  
a better entrepreneur.



## About the Author

Joel S. Owens

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In Real Estate since 2004

Broker

Author

Syndicator

Owner & Founder of **NNN INVEST**

Investor with a specific emphasis and specialty on STNL (Single Tenant)  
& MTNL (Multi-Tenant properties)

Typically reviews about 1,000 properties  
weekly for clients across the country

**NNN INVEST** has clients buying to own 100% themselves directly  
in multiple states

**NNN INVEST** also has accredited investors  
that invest passively on our syndicated deals.

# NNN RICHES

The purpose of this book is to help others understand and learn more  
about

the commercial real estate investing space  
with STNL (Single Tenant Net Lease)  
&  
MTNL (Multi-Tenant Net Lease) properties.

*“I want to inspire people to believe in themselves no matter what adversity  
they faced in the past or are still facing today.”*

*Tomorrow can be a better day where dreams become reality and visions can  
take form with daily positive actions.”*

*Joel S. Owens*

## A PERSONAL NOTE

I wanted to share a personal note of my history so people can understand what makes me the man I am today. My journey in life up to this point has certainly had a lot of wild twists, scary turns, and fun times along the way.

I grew up in Georgia and have lived here my whole life. I grew up in a smaller northern suburban area of Atlanta called Cherokee county. Back then as a kid you walked around the subdivision and went and played in the woods. That was your source of entertainment unless your parents took you somewhere. I thought I was big stuff when my friends and I got the walkie talkies ... *LOL*. Life was a lot simpler back then when technology was not as prevalent. It gave you a lot of time to think about life, your dreams, and what was possible.

From an early age I had always seemed to have the entrepreneurial spirit. New ideas and possible inventions came to me on a daily basis. My imagination was continually thinking about creating what doesn't exist or improving upon an existing product to make it better.

Fast forward to my 20's and I was looking to get out of working in retail—as I was at Wal-mart. I noticed Domino's pizza was hiring for delivery drivers and that it was close to where I lived, so I took a leap of faith to try something new. Being a driver was fun, the money was a lot more and the hours worked were a lot less than what I was previously doing, so I was happy. While I worked there I was dreaming of various businesses I could own and inventions I could create.

I had seen the entrepreneurial spirit of my Uncle Larry who was my dad's younger brother. He had created Goof-Off the cleaner that removed old paint spots and stains from various places in houses and buildings. The growth and success of his company was tremendous and he eventually sold off to a larger *As Seen on TV* company and retired. After awhile he became tired of vacation traveling and worked on a new hand cleaner.

I was now inspired business-wise to do something greater with my life. I had graduated high school and then went to college for a few years. In between classes my buddies and I would play pool at the rec hall on campus. My other friends already had businesses of their own. We were all making very good grades so, we just asked ourselves, why we were there if we were never wanting to work for somebody else or some large corporation? That is when the light bulb moment happened that as entrepreneurs we were all destined for something greater that we could create ourselves and make life what we wanted it to be. So I decided to venture off from college.

Years went by and I was driving for Domino's when another driver, a friend of mine who was older in age, was approached by a commercial developer to buy his property. He knew I was in real estate (as a licensed agent) and wanted me to look the purchase and sale agreement over. I looked it over and pointed things out in the contract. After the meeting with the developer they called me later on and said I had caught every single "out" in the contract and that usually people catch maybe one or two—but not all. He then offered for me to assemble the other land parcels around that property for the larger retail development. I spent about 2 years doing that and then the economic down-cycle happened. Everyone stopped building and raw land wasn't moving much for development.

That is when I then switched to selling larger apartment buildings. After doing that for awhile it just wasn't an asset type I was excited about for transacting. You had a lot of residential tenants, trashed units, owners who kept poor books, etc. Conversely working for Domino's in all facets previously, including management, I had a good grasp of businesses and retail type properties. I liked that the tenants kept the places clean. You also had commercial landlord tenant laws instead of residential. I enjoyed learning about the different types of businesses. From there I knew that this asset class of STNL (single-tenant) and MTNL (multi-tenant) properties was what I wanted to do long term.

A long time ago I came across a real estate site called *Bigger Pockets*. Back then it was just a one-page website with a few bank foreclosure links in the middle of it. There were a few other competing small sites at the time. Since there wasn't much to interact with I went to the website only occasionally. Flash forward a few years and when I went back to the site there was a forum now and other items added. I can't remember exactly how many members there were when I rejoined but it was in the lower thousands. Josh Dorkin was the owner and only person at the company. There were a few moderators who volunteered to monitor the site but that was it. I still remember the day way back when I received a call from Josh saying he was trying to create something great with his company and would I like to come on as a moderator to help out. I thought about it and said, "Sure", because I felt there was something special about that company. It was amazing over time to see that company grow. I would answer real estate questions and also learn a ton along the way. As the site grew I stayed more focused on posting in the commercial real estate section. To this day I think Bigger Pockets is now over 2 million members and growing.

Eventually I went from being licensed at a brokerage to being a principal broker and owning my brokerage. Today I own my company **NNN INVEST** and love commercial real estate. I look forward to the new adventures every day and take a passionate approach to living life to the fullest.

To hear more about my personal story I have written a separate book titled *Forgave the Father & Saved By my Son*. The book goes into



personal tragedies, overcoming big obstacles, and facing very tough life circumstances to still come out on top with happiness and living life to the fullest. I want people to see **HOPE** in their lives personally and professionally—that if I can do it, so can they.

Over decades of time in my life I have been seeking what I thought was **BALANCE**. What that meant to me was that everything in my life was in a place it should be on a daily basis. What I learned is balance doesn't exist. You can equally allocate time to different parts of your life and be absolutely miserable.

These findings led me to a great discovery about daily living. I found that **HARMONY**, not balance, was what I was seeking to achieve. With harmony, it's about being happy and fulfilled on a daily basis in all aspects of your life (mind, body, spirit) and enjoying the journey.

Knowing that as you go through life there will be constant adjustments, the main point is feeling good about how you are living and where you are going.

I wanted to share that point as it has led to great success and fulfillment in my life with understanding not just monetary returns, but all the other aspects of life that make it enriching and exciting to live.

I hope my story inspires others to go for your dreams and realize adversity is just a stepping stone on the path to success to make you stronger. To everyone, I hope you truly enjoy this book as I have tried to put my heart and soul into it giving as much knowledge and value as possible. To your success! All the best.

*Joel S. Owens*



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### Interactive PDF

If viewing this book on your mobile device, tablet or computer, this hand symbol indicates a tap or clickable hyperlink to a web address.

Explore this

# Quick-Start Guide

for reference, and  
visualized diagrams of NNN investing

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## ➤ What is NNN?

NNN, or 'Triple-Net' is typically a commercial property lease.

The NNN stands for "net, net, net".



## ➤ Why should I choose NNN investing?

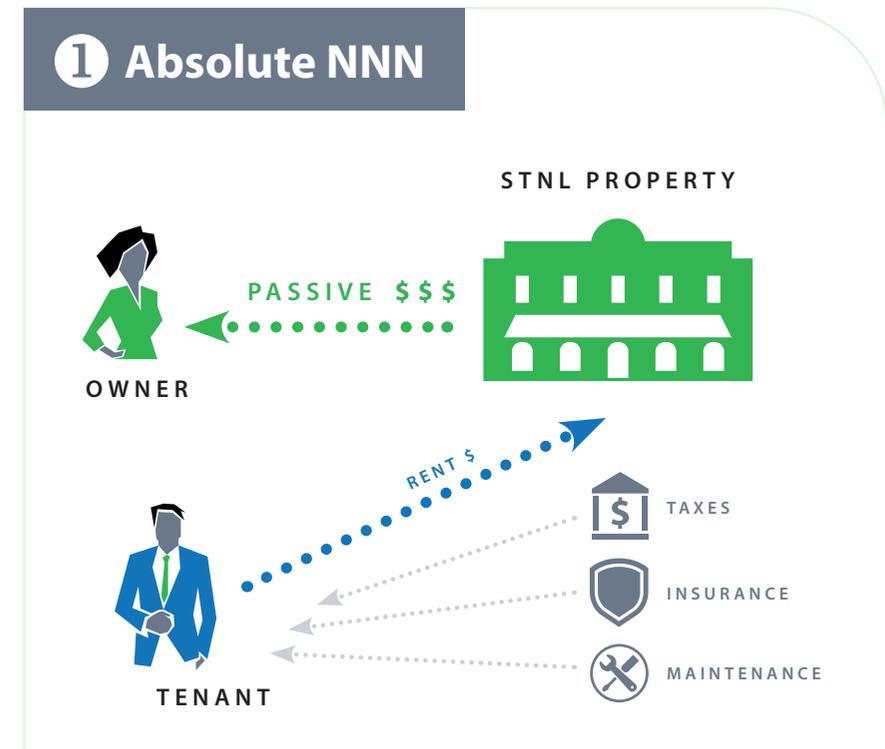
NNN offers **Passive** Real Estate **Wealth** through commercial investing.

## What are the types of NNN Leases?

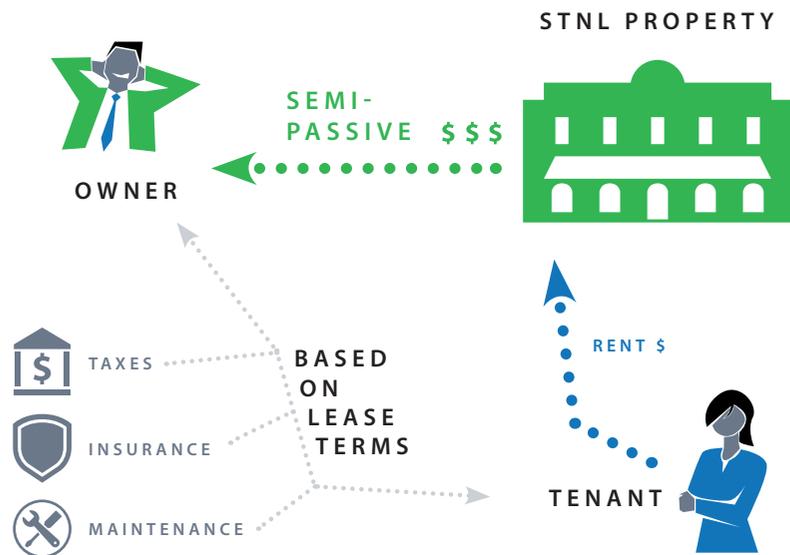
There are essentially four different types of leases.

For deeper details, see my chapter on this, **starting on page 41**. 

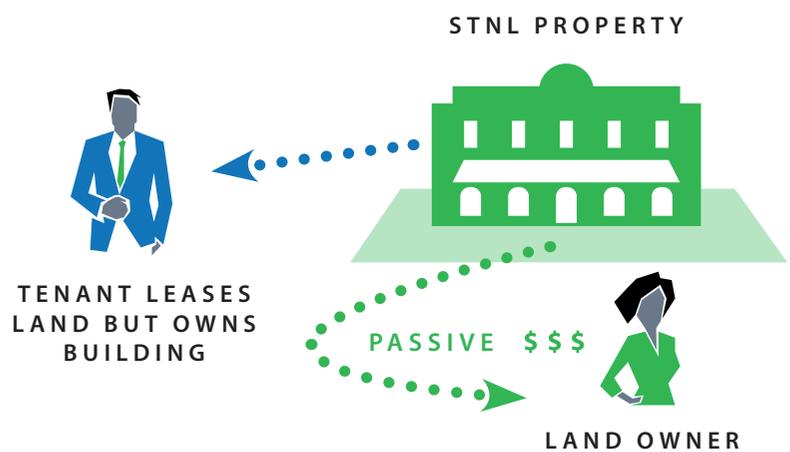
1. Absolute NNN Lease
2. NN Lease
3. Ground Lease
4. Leasehold



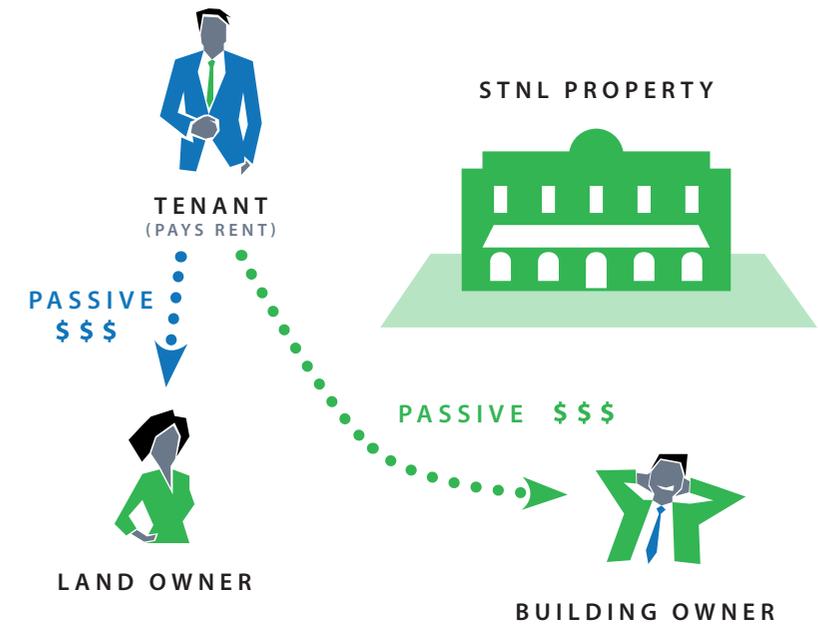
## 2 NN Lease



## 3 Ground Lease



## 4 Leasehold



### LEASEHOLD FURTHER EXPLAINED:

- Developer/Building Owner locates land to build on.
- Land owner wants to lease the land.
- Developer/Building Owner signs ground lease with the land owner, constructs building and leases to tenant.
- When Developer/Building Owner sells, the buyer purchases the building but does not own the land.
- Typically building depreciation is 100% for value, vs. Absolute NNN where building value is typically 75% and land value is 25%.



## What are the types of Buildings?

Two of the building types can be abbreviated by STNL (Single Tenant Net Lease) and MTNL (Multi-tenant Net Lease), and a third type would be a Value Add building.

### SINGLE TENANT



E.G. PHARMACY  
DOLLAR STORE  
RESTAURANT  
URGENT CARE

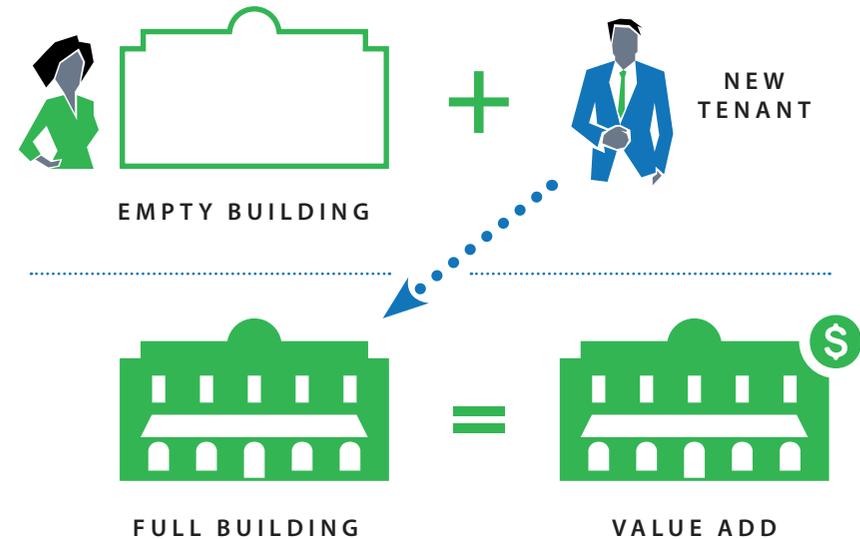
### MULTI-TENANT



E.G. STRIP OF STORES WITH  
MULTIPLE TENANTS

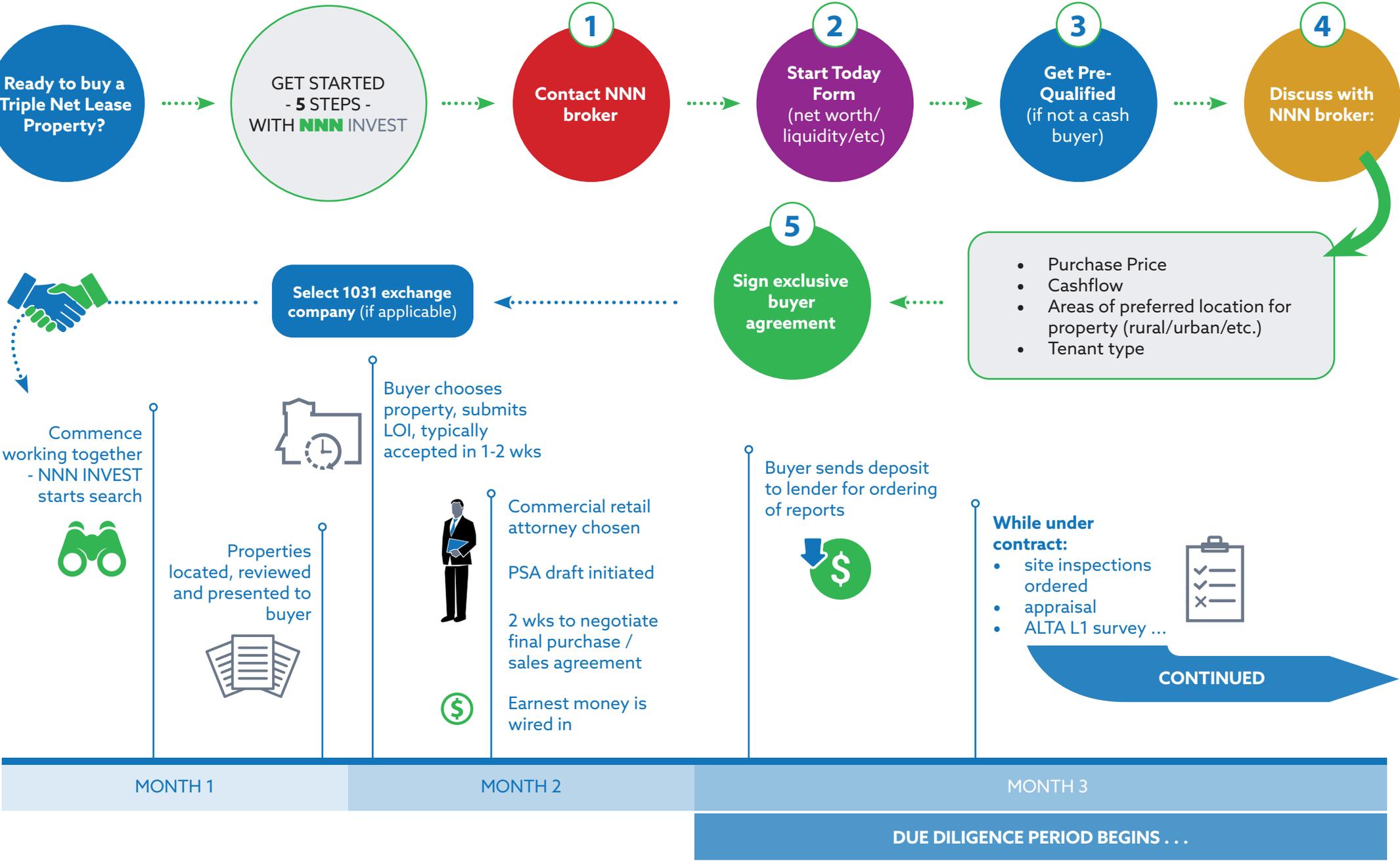
### VALUE ADD

A Value Add building would be initially invested in while empty, and then value is added by filling the building with a tenant.

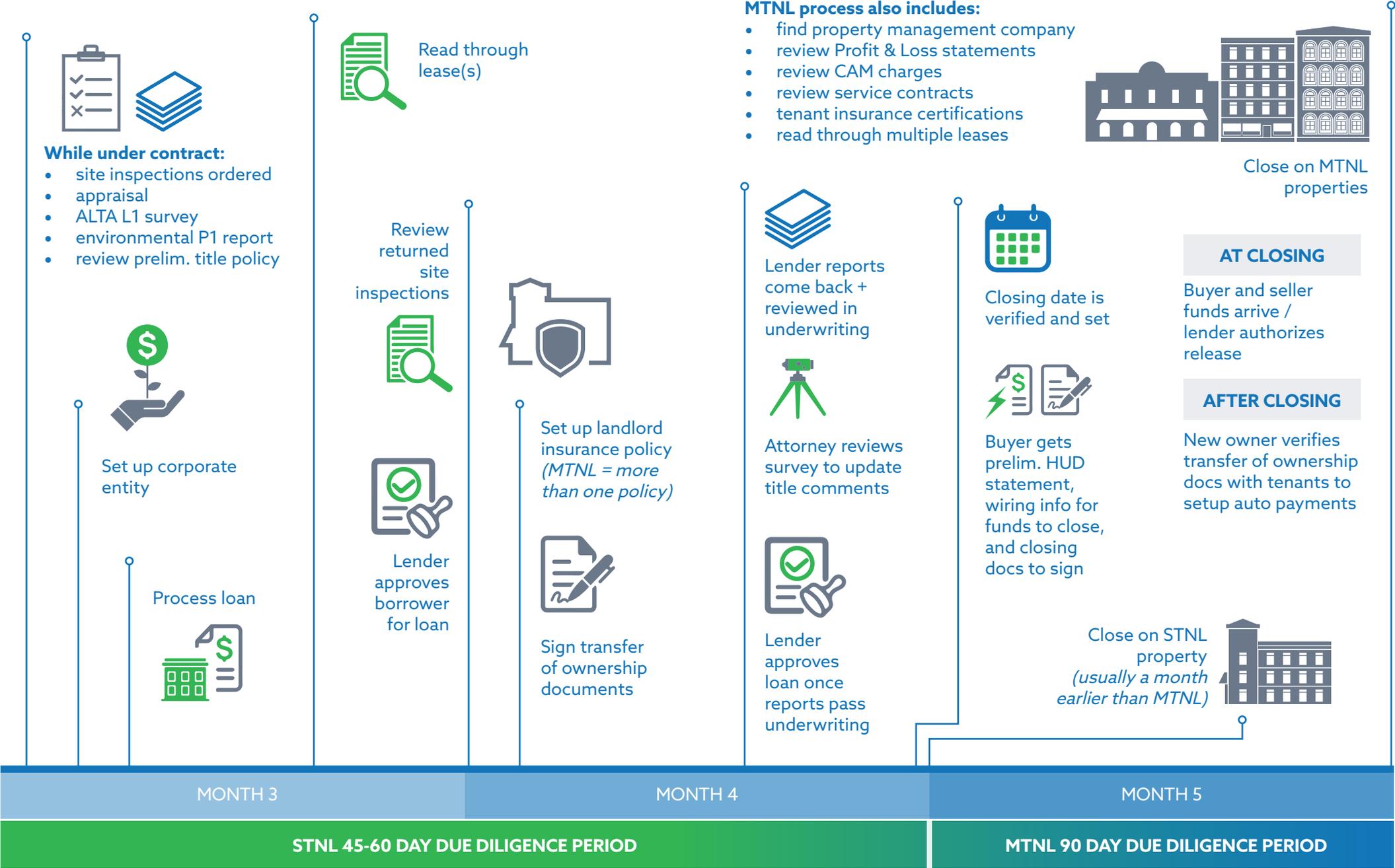


The tenant and the owner typically negotiate the terms and expenses of the lease.

# How it works

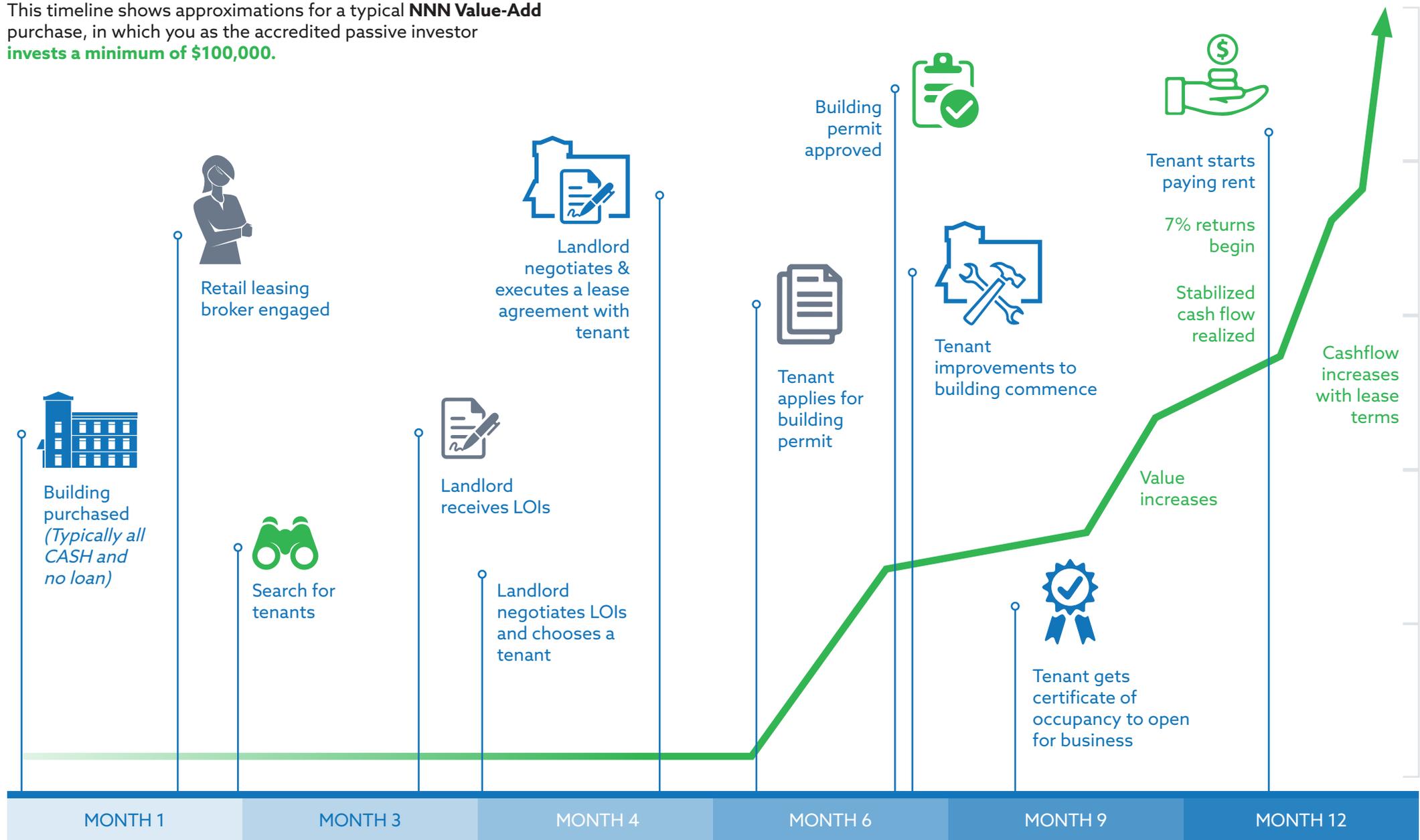


# How it works



## How it works

This timeline shows approximations for a typical **NNN Value-Add** purchase, in which you as the accredited passive investor **invests a minimum of \$100,000**.



## How it works

The preferred target return is not guaranteed, and cash on cash estimates can be variable, based on market and tenant conditions.



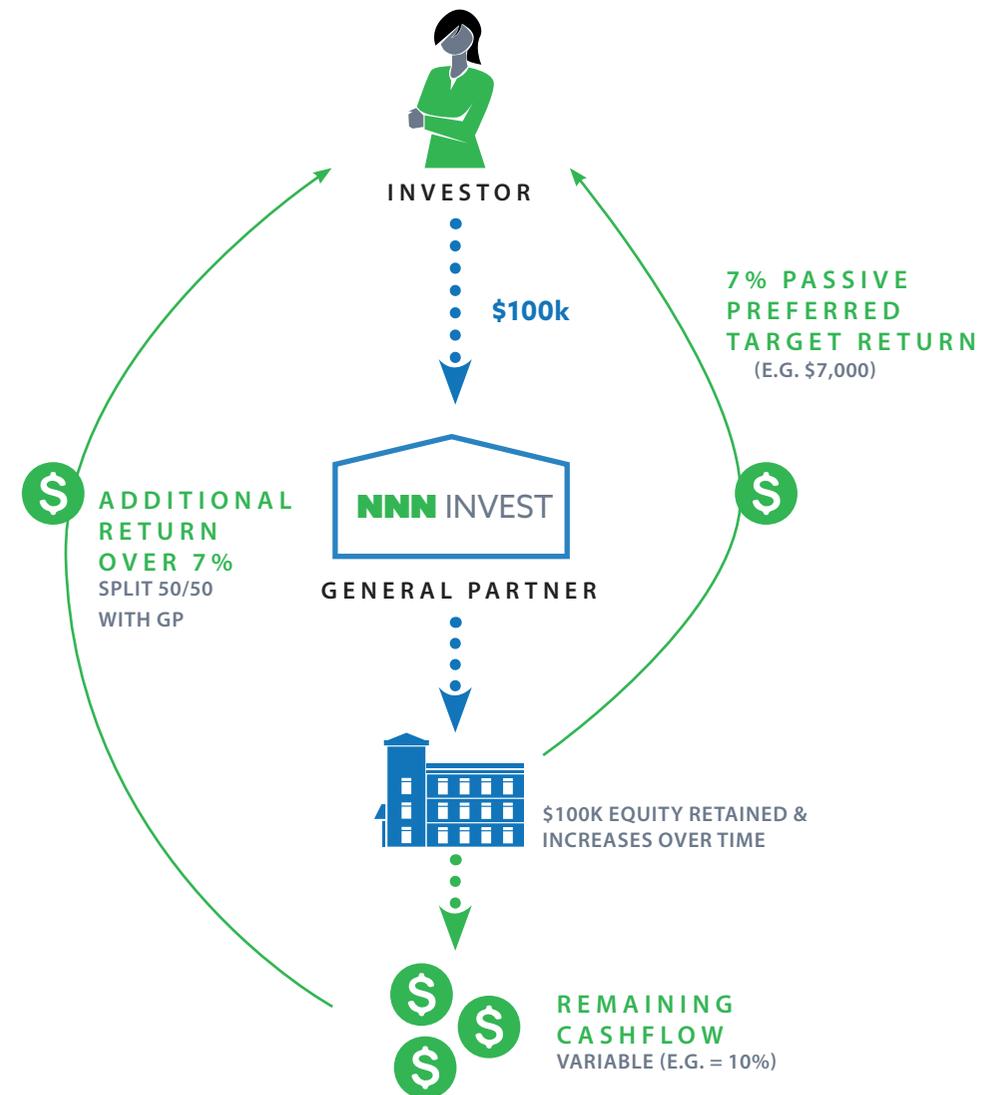
Accredited investor invests **\$100k** with General partner



Property leased up



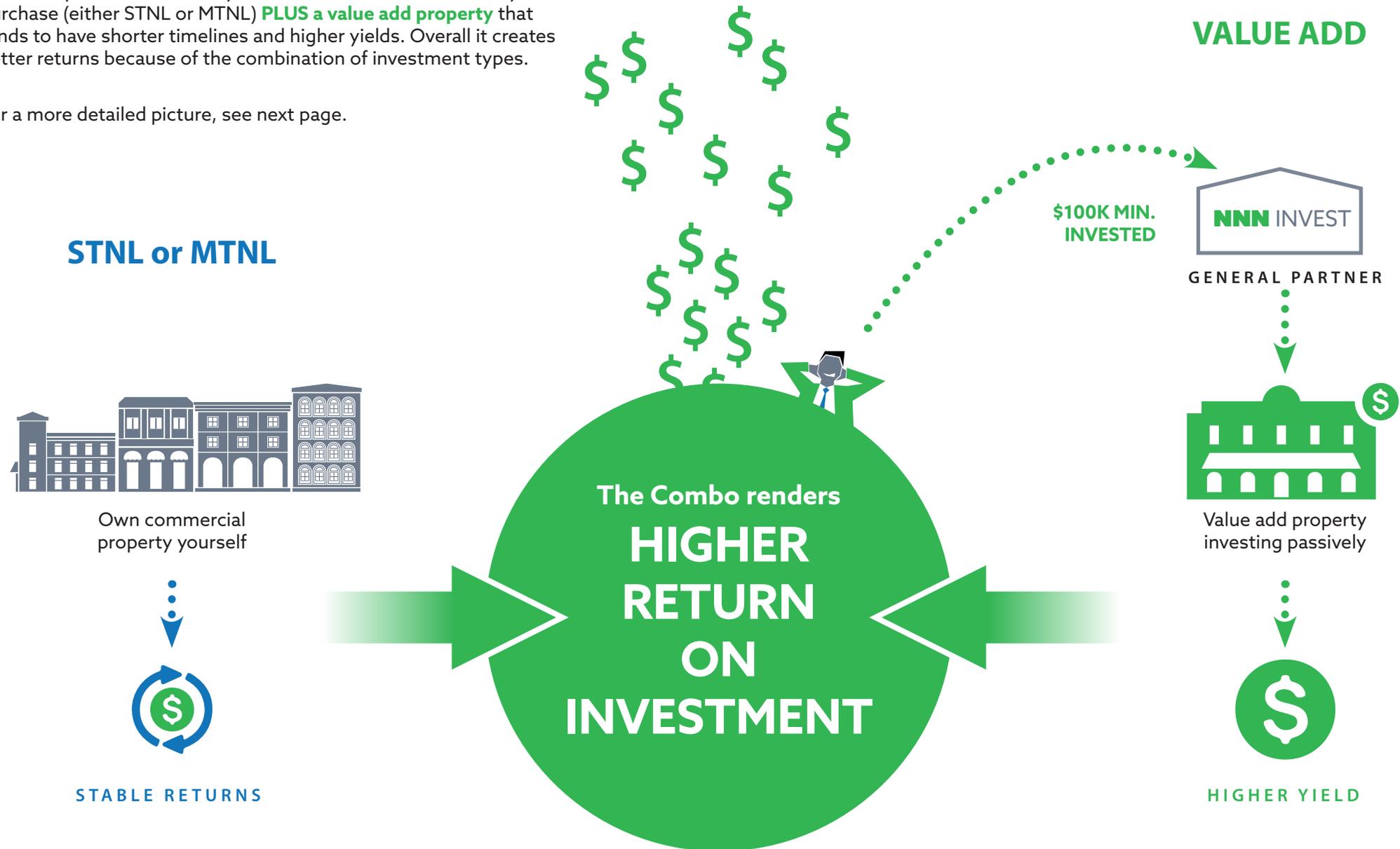
Tenant set up to start paying rent



## How it works

This example shows the potential for realizing an increased overall return on your investment if you decide to combine both a buyer purchase (either STNL or MTNL) **PLUS a value add property** that tends to have shorter timelines and higher yields. Overall it creates better returns because of the combination of investment types.

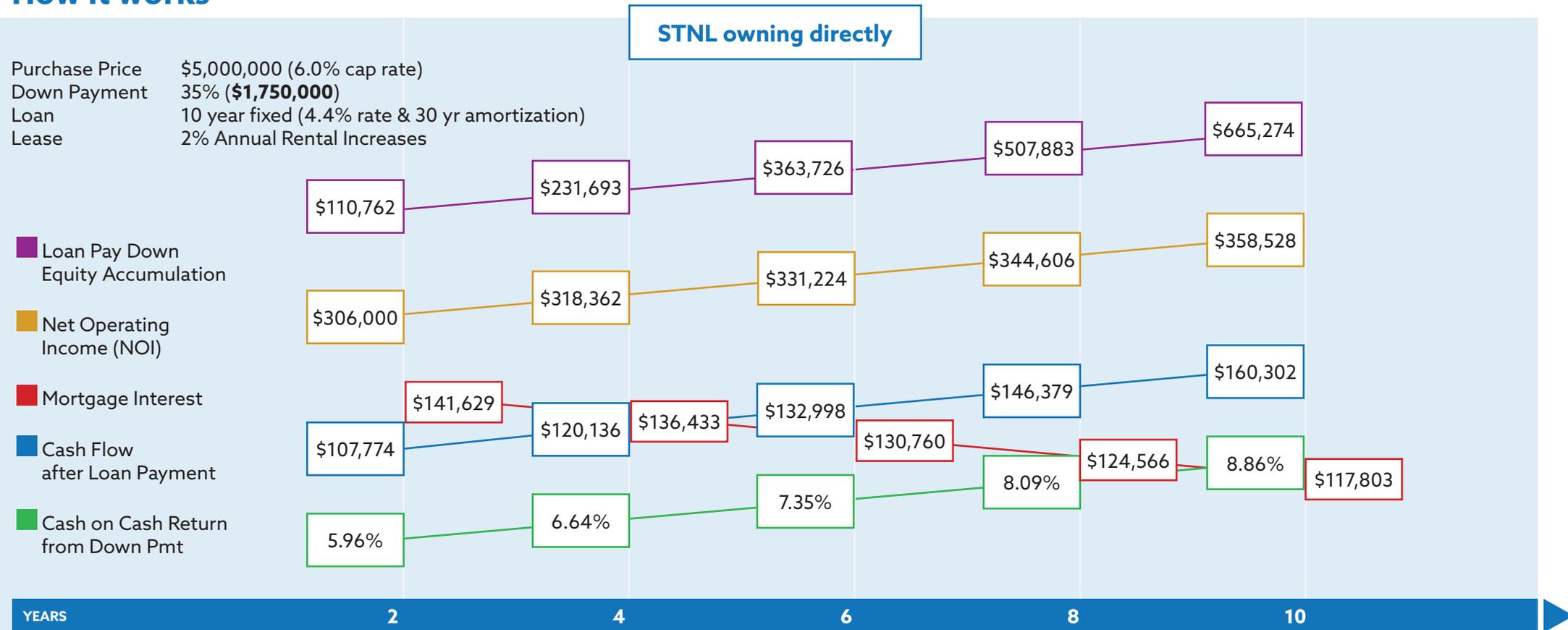
For a more detailed picture, see next page.



CASH FLOW & EQUITY MULTIPLES – **HAVE BOTH!**

## How it works

Purchase Price \$5,000,000 (6.0% cap rate)  
 Down Payment 35% (**\$1,750,000**)  
 Loan 10 year fixed (4.4% rate & 30 yr amortization)  
 Lease 2% Annual Rental Increases



**\$** TOTAL INVESTED: **\$1.75m**    TOTAL 10 YR RETURN: **\$2,536,631**    EQUITY MULTIPLE: **1.45%**

### Value Add

Purchase \$1,025,000 Cash (Dark Building - Syndicate)  
 Improvements and Reserves = \$430,000  
 Stabilize 10,000 sq ft building at \$25/ft rent = NOI of \$250,000  
 Accredited Investor \$100k + Improvements & Reserves \$43,000 = \$143k invested

	Year 1	Year 2	Year 3
NOI	-	\$25k	\$25.5k
CASH ON CASH	-	17.5%	17.8%
EQUITY MULTIPLE	-	1.76%	1.79%

**\$** **\$** **\$** TOTAL INVESTED: **\$143k**    TOTAL 3 YR RETURN: **\$306.5k**    EQUITY MULTIPLE: **2.14%**

### Combined Return

(Own Directly & Value Add)

Total Invested  
 STNL **\$1,750,000**  
 +  
 VA **\$143,000**  
 =  
**\$1,893,000**

Combined Equity Multiple: **1.8%**

## ➤ What are the types of Lease Guarantee?



Investment Grade BBB or better, e.g. Walgreens



National Private Company, e.g. Chick-Fil-A



Subsidiary of Investment Grade, (regional areas)



Large Franchisee, e.g. Taco Bell



Small Franchisee, (25 or less locations)



Mom & Pop, (single independent location)

## ➤ What are the types of Tenant?



Industrial



Auto Sales or Auto Repair



Dollar Stores



Banks or Credit Unions



Quick Service Restaurants (QSR) or Drive-Thru



Dine-In Restaurants



Medical



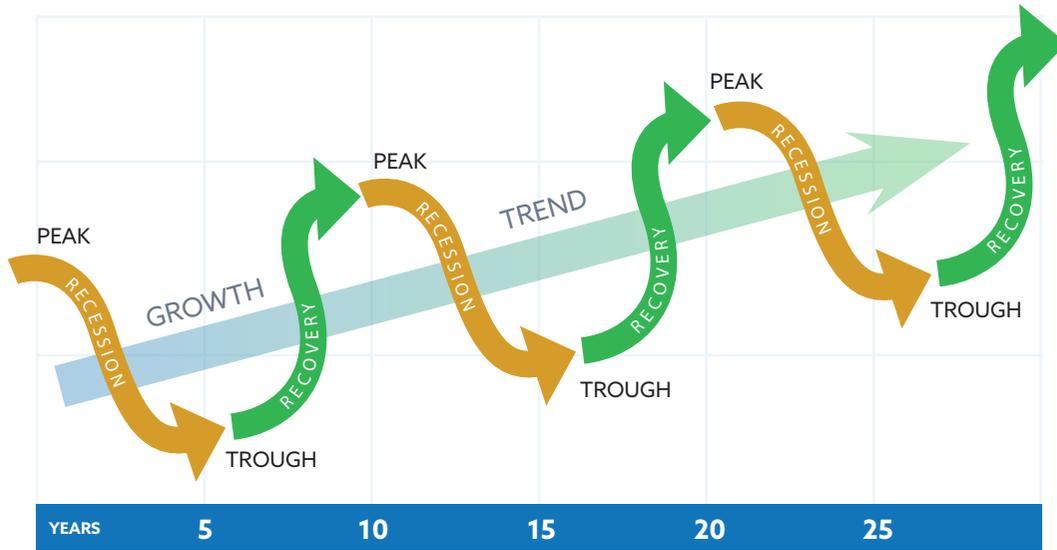
Grocery



Gas Station

## ➤ The Real Estate Economic Cycle

This graph shows the common cycle of the real estate growth over 30 years. Although there may be peaks and troughs that occur typically over the course of a 10 year period or so, the overall upward growth will continue, trending upwards over longer periods of time.



## ➤ Tenant Progression & Expansion Cycle

Tenants expand more aggressively in times of economic growth and recovery. Tenants prefer business friendly states with high population and income growth areas being an ideal choice.



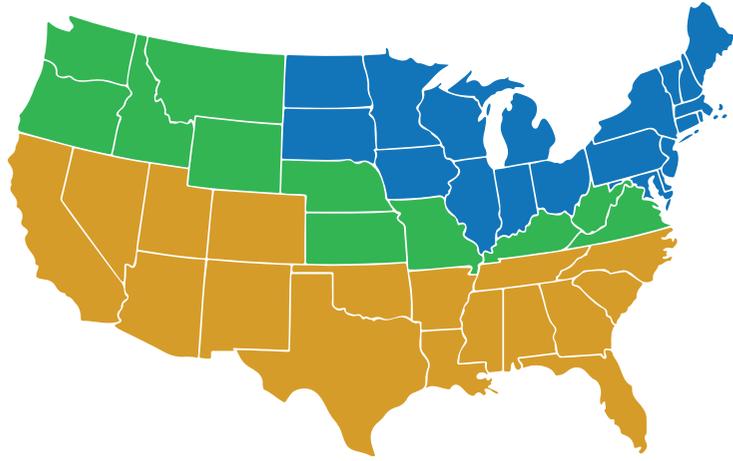
## ➤ Area Risk Profiles

SAFETY		RISK	
Higher income, more affluent	<b>AREAS</b>	Lower to median income	
Excess cash to spend	<b>MONEY</b>	Less disposable income	
Recession resistant with reserves	<b>CYCLES</b>	Not recession resistant	
Can support diverse tenant types	<b>TENANTS</b>	Support more necessity based only	
Higher proficiency skills, harder to automate & replace	<b>JOB BASE</b>	Lower labor skilled jobs being automated	
Higher commercial rent growth over time	<b>RENTS</b>	Less rent growth due to reduced demand in certain economic cycles	
Reduced crime due to better paid police	<b>CRIME</b>	Higher crime rates due to more economic hardships and reduced quality police due to lower budgets & salaries offered	

## ➤ Tenant Risk Profiles

OPTIMAL		NON OPTIMAL	
QSR - "Quick Service Restaurants", Name brand corporate stores (Chick-Fil-A, McDonalds, etc.)		Mattress stores	
Medical Tenants (Davita, Fresenius, Aspen Dental, Large Hospitals)		Hobby stores	
Pharmacy (CVS, Walgreens, etc.)		Movie theaters	
Dollar Stores (Dollar General, Dollar Tree, etc.)		Gyms / Vitamin stores	
Grocery Stores (Publix, Kroger, Sams Club, Wal-mart, etc.)		Pot / Vape stores	
Hardware Stores (Home Depot, Lowes, etc.)		Small franchises	
		Mom & Pop operators	
		Small gas stations	
		Car washes	
		Clothing stores	
		Furniture stores	

## ➤ What is important about location?



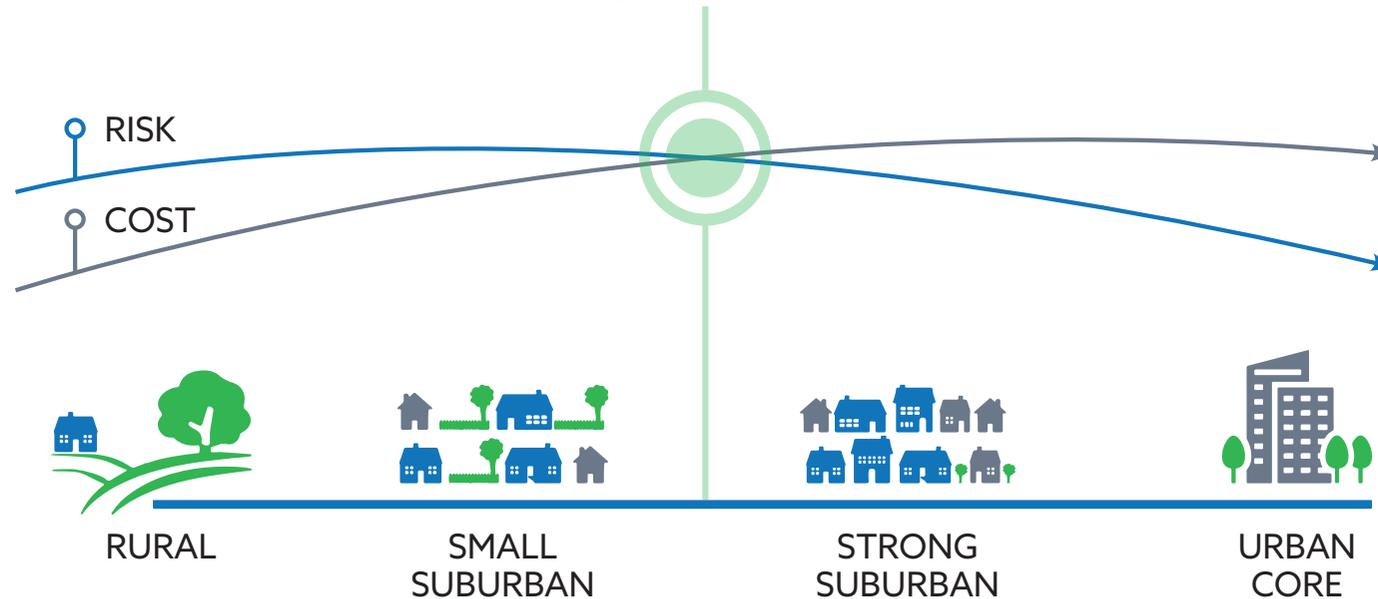
	SUN BELT	MID REGION	FROST BELT
Growth	HIGH	STABLE	NEGATIVE
Sustainable Investment Options	MULTIPLE	AVERAGE	ISOLATED POCKETS

### Finding the sweet spot

Higher Risk  
Weaker Long-term-value  
Lower Purchase Cost

Balance between  
Long-term-value and  
Higher cashflow

Lower Risk  
Stronger Long-term-value  
Higher Purchase Cost



## ➤ What if I am not a cash buyer?

If, for example, you were financing for a Single Tenant property (STNL), the loan approval will be based on the following:

-  Credit grade of the tenant
-  Years of primary guaranteed lease term remaining
-  Location
-  Loan to value ratio
-  Cap rate
-  Lease type
-  Median area income
-  Tenant type

The typical range for a downpayment is 30% to 50% depending on the variables above.

Currently, an average loan fixed for 10 years with 25 to 30 year amortization, will have a percentage rate fixed in the 5's (These rates can vary quarter to quarter, and were estimated at the time of publishing).

## What lenders look for

<b>PFS</b> (Personal Financial Statement) or <b>NWS</b> (Net Worth Statement)	<b>EXAMPLE OF HOW IT APPLIES</b>
<p><b>ASSETS</b> (What you own)</p> <p>INVESTMENTS (at Market Value)</p> <p>PERSONAL PROPERTY (At Current Value)</p> <p><b>LIABILITIES</b> (What you owe in unsecured credit + monthly predictable expenses) plus...</p> <p>MORTGAGE(s)</p> <p>LOANS (other secured liabilities, personal loans, education loans, etc.)</p> <p><b>Assets - Liabilities = Total Net</b></p>	<p><b>\$5M Building Purchase</b></p> <p>Requires</p> <p><b>\$1.5M Investment</b></p> <p>+</p> <p><b>\$3.5M Loan</b></p> <p>Lender will require 10% liquidity of \$350K</p> <p>Borrowers Net Worth should be equal to or close to the Loan Balance of \$3.5M</p>

## ➤ How to select the right broker

Selecting a Commercial NNN Broker means looking for the following qualities, including a high level of resourcefulness for making the deals run as smoothly as possible.



The right broker should have all of these traits. The right broker helps an investor find and win the deals. Through experience, the broker knows how to search on, off, and pre-market properties and how to structure the offer to help get it accepted.

The broker has 1031 exchange companies, capital markets mortgage brokers, an extensive property owner national database, commercial retail attorneys, report vendors (survey, phase one, building inspection), and property management companies (if needed for retail centers / MTNL).

## ➤ Potential Tax Strategy

(THIS MAY CHANGE *TOMORROW* - PENDING THE PROTECTION OF THIS CURRENT ALLOWANCE.)



### Cost Segregation

This is an option where you can break out building components, such as:

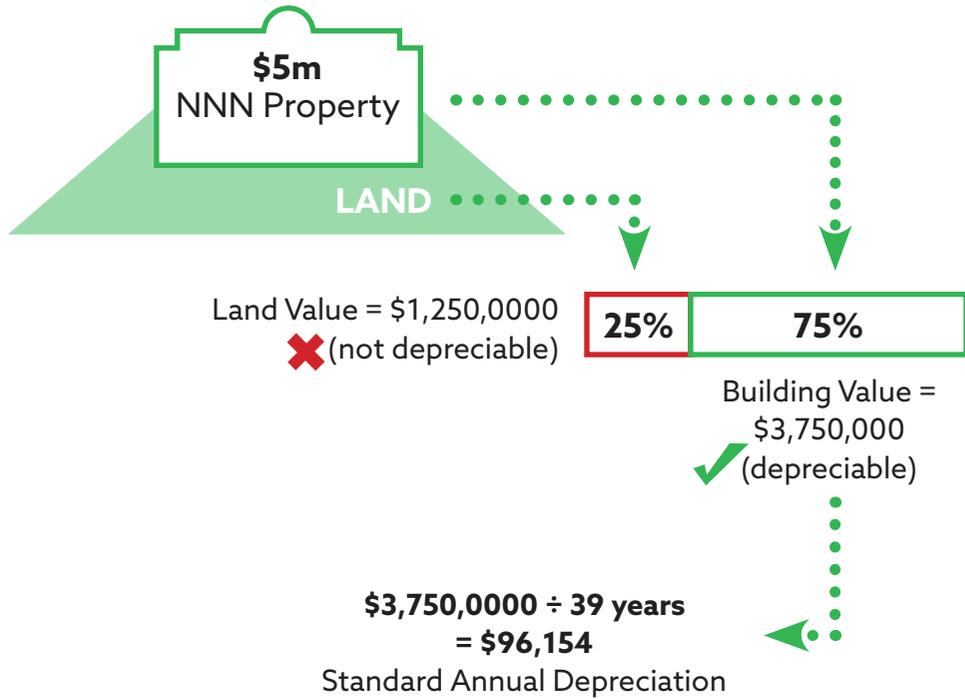
- furniture or fixtures
- electrical system upgrades
- other maintenance items (e.g. a new roof)...

...to help increase depreciation amount in the early years of ownership.

Typical Commercial Depreciation Schedule runs 39 years.

Qualifying to gain *Real Estate Professional* status is required to take full advantage of this strategy. It removes the current existing cap against personal income.

### Cost Segregation Example



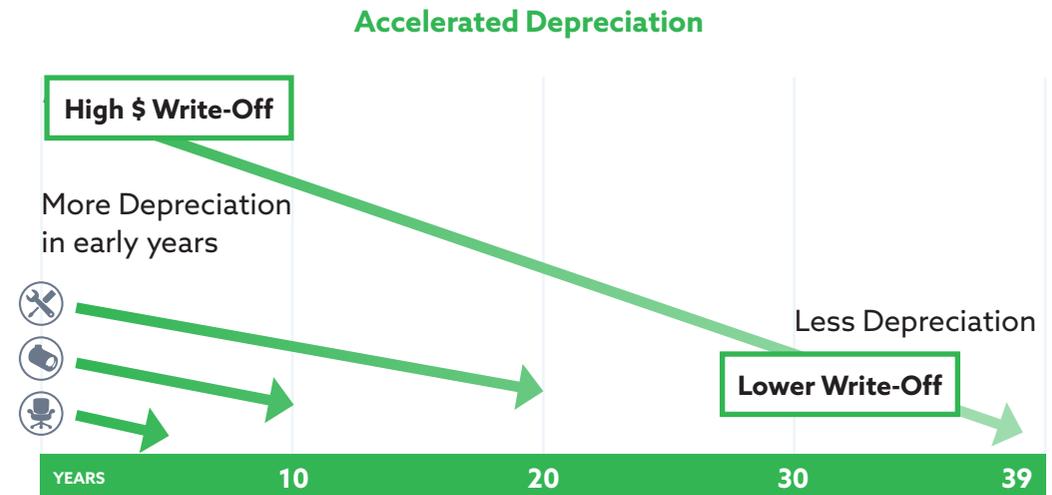
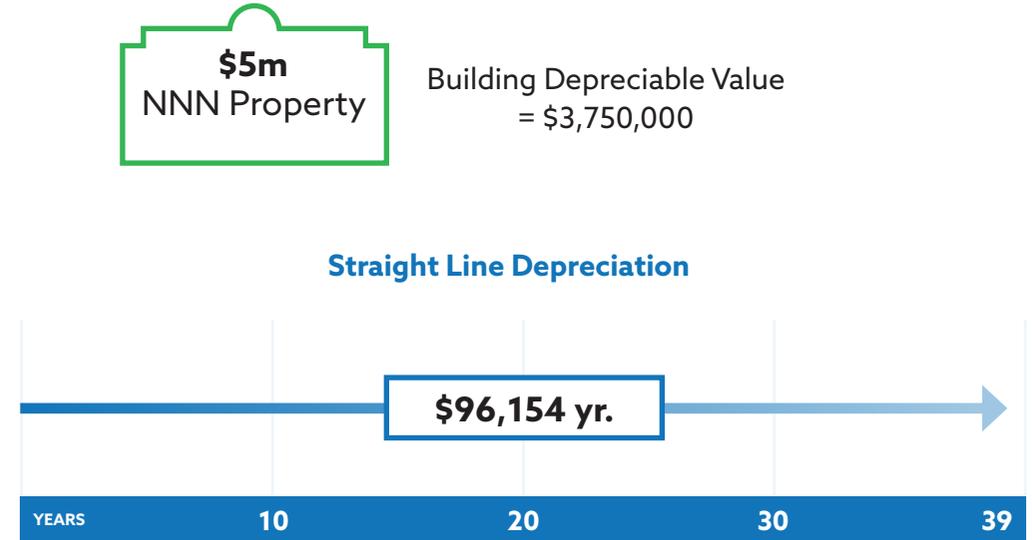
**+**

**Accelerated Depreciation**  
 (breaks out building components into shorter life cycles of 5, 10, 15, 20 years etc.)

- furniture or fixtures
- electrical system upgrades
- other maintenance items (e.g. a new roof)

By taking accelerated depreciation greater income amounts in earlier years can be written off faster.

### Accelerated Depreciation Comparison



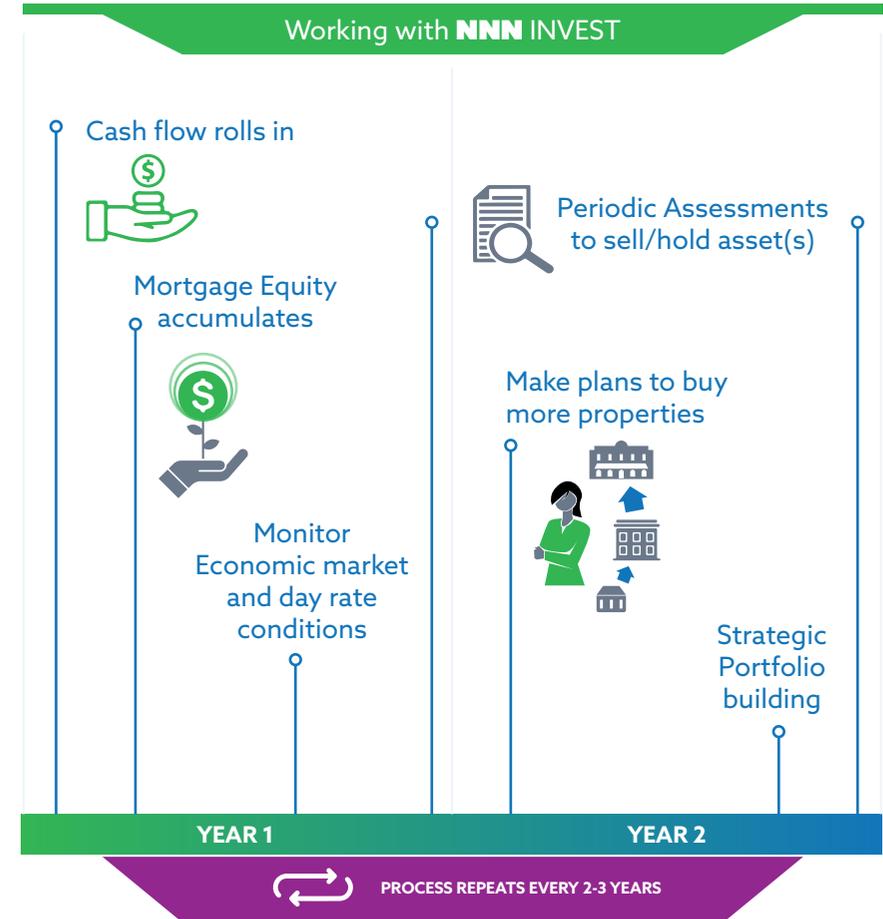
## NNN WEALTH BUILDING SUMMARY

- 1 Buy property(s)
- 2 Take advanced depreciation against the income
- 3 Try to qualify for Real Estate Professional status
- 4 Refinance and pull out money tax-free to re-invest or sell and 1031 exchange tax deferred into one or multiple properties
- 5 Heirs inherit property at a 'stepped up basis' thereby wiping out capital gains and depreciation recapture taxes

NOTE: This is not legal or tax advice. Laws change frequently. Please consult with your tax professional about your specific situation before making any investment decisions.



## WHAT HAPPENS AFTER I PURCHASE?



And now let's explore the

## The Details





## WHAT IS STNL NNN?

I have often received calls over the years and talked to many thousands of investors. The initial call and inquires seem to have a common theme. The callers often say they are hearing of STNL NNN for the first time or have heard about it from a friend or colleague but are not quite sure what it is. They want more information to explore and learn what STNL (Single Tenant Net Lease) is.

Single Tenant Net Lease is a tenant that solely occupies a free standing building.

Most single tenant buildings are retail-based in nature but can also be medical or various other types. The allure to single tenant net lease properties is that they can be *completely passive* in nature.

It would be kind of like owning a stock or bond with the added benefit of owning a physical real estate asset with tax benefits.

These properties are often desirable because they have long term primary leases with options to renew, fixed rental increases, and investment grade credit (very dependable) tenants.

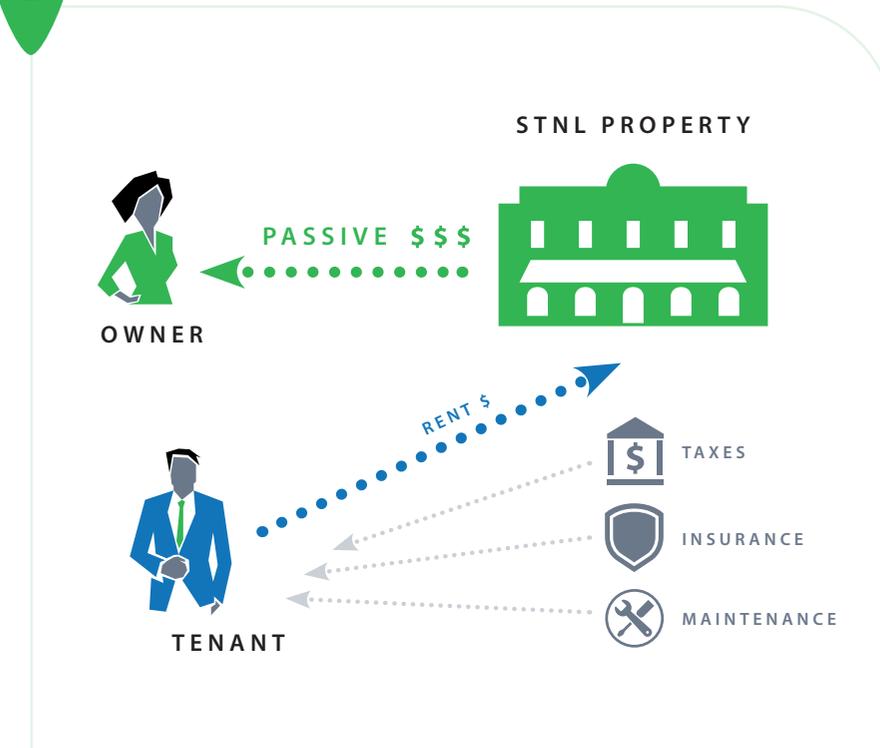
Absolute NNN means that there is nothing the owner needs to do with the property. The tenant pays property tax, does maintenance to the property, etc. The landlord (owner) simple sits back and collects a check each month *passively*. These types of properties tend to be no headache or stress where the landlord can relax and model out a certain return year over year and spend their time enjoying life to the fullest with (family, friends, traveling, etc.)

Next chapter we will explore the various types of leases associated with STNL NNN properties.

### WHAT DOES "NNN" MEAN?



### WHAT DOES "ABSOLUTE NNN" MEAN?





2



## TYPES OF LEASES

Investors often think of STNL as generally *passive* but do not have as clear of an understanding to the types of lease structures available and what that means.

Here are the various types of leases you might come across when searching for a NNN STNL property.

### **Absolute NNN**

This is where the tenant pays for *everything* with a property, and the landlord is completely *passive*. The tenant takes care of insurance, property taxes, maintenance to the property, etc.

This structure is highly desirable to landlords as they want more hands off investing. If investors wanted to be more hands on they

would look at other types of asset classes for investment choices.

### NN (Double Net)

This type is a little more tricky. Some tenants try to write in some responsibility to the landlord in the leases. Often newer developers, unsophisticated land owners, etc. can be taken advantage of by seasoned business tenants with negotiating the lease.

Some business tenants only agree to NN leases and not absolute NNN no matter what. I have seen exceptions where the location is super strong (A+) and many tenants are competing to go on that site for their business. In those cases the landowner can usually dictate their terms and hold firm. The landowner can simply move to another tenant on the waiting list, who wants the site, if discussions break down with the current potential tenant for the *lease up* of the property.

With NN, when it's a new building, there is often a roof warranty of 15 years that transfers to the new purchaser when proper steps are followed. NN can still be good if the lease calls for just roof and structure as landlord responsibility and if it is a newer type of building. In that case an engineer completes an inspection that examines the building to make sure it's in good condition for the properties' intended use.

Sometimes there can be a bad lease where the NN landlord is responsible for roof, structure, parking lot, windows, HVAC, utility lines, etc. Basically the NN lease is working almost like a *gross lease* where the landlord is typically responsible for *everything* with the property. That gets away from the whole purpose of investing in the STNL NNN asset class. My clients and I usually stay away from NN leases that act like gross leases because you have fixed rental increases with the lease. This means you do not want *variable* expenses that could affect the expected cash flow of the property.

### Ground Lease

A ground lease is where the landlord owns the land but not the building. The land owner it is common to provide utilities to the site for access and then the tenant pays to construct the building themselves.

A couple of *positives* to the ground lease.

1. If the tenant does not renew the option period after the primary term of lease ends, the landlord usually gets the building for free. The landlord could then possibly convert the next tenant to an absolute NNN lease for higher rent with the land *and* the building.
2. A ground lease can be an affordable option to a buyer looking to purchase a NNN type property in an area they might not be able to manage due to price. As an example, say a buyer can afford a 3 million property but wants to be in an urban core area where absolute NNN goes for 5 to 6 million. By purchasing a ground lease at lower rents for just the land the buyer may now be able to own in the area with a 3 million ground lease property for the quality tenant they want.

A few *negatives* to a ground lease.

1. Since the investor only owns the land and has no ownership of improvements then there is not usually any physical property to depreciate for tax purposes.
2. Ground leases sometimes require a lower loan-to-value (LTV) on the property and some NNN lenders prefer loans on absolute NNN properties only.

## Leasehold

In this scenario a developer locates a piece of land they would like to buy and build on. The landowner however does not want to sell the land and wants to lease the land instead. So the developer agrees to sign a ground lease with the land owner and then construct the building themselves and lease to the tenant. When the developer (seller) of the building wants to sell the property the building is *subject to* the underlying ground lease. This creates two payments— one to the land owner and one to the building owner.

### Positives to a Leasehold

1. Since the leasehold owner owns the building and not the land they can typically depreciate 100% of the purchase price instead of using a land/building percentage ratio.
2. The yields can often be higher since more risk is involved.

### Negatives to a Leasehold (there are many)

1. You only own the building for a set period at which time it could possibly revert back to the land owner if the tenant does not renew the option periods.
2. Since there might be two payments, it can cause issues with a lender. The lender for the buyer of the building may want the land owner to make their rights secondary to the building loan lender. Often times the land owners will balk at this provision. If the mortgage holder of the building foreclosed they can sometimes take the land away from the land owner as well. The landowner would therefore want an *unsubordinated lease* to protect their rights.
3. The structure of the land lease might not be optimal for the building owner and cause big problems in the future. One **KEY** is to check the land lease ahead of time before looking to buy a

leasehold and see how many years are remaining on the lease before options and if there is an option for the building owner to buy out the land lease.

4. Leaseholds represent a smaller part of the NNN market and not many buyers are looking for them which can make your interest in the property harder to resell in the future. These properties often trade at higher cap rates but also can be fraught with risk.

## Sale Leaseback

A sale leaseback is where the owner of the property would like to now sell the property on proposed terms and pay rent to the new owner. It can be a great way for a business to recapitalize to re-image existing locations on the outside and inside or grow and add new locations.

Since the lease is not yet created the *tenant* offers what terms they would like to see in a proposed lease. The buyer for the property can propose their own terms as to what they would like since the lease at this point is negotiable. A sale leaseback can give the buyer great flexibility to get better than market terms if the business owner is highly motivated on the sale leaseback . The buyer needs to understand and structure the lease so it is desirable for another buyer to purchase in the future and so that financing can easily be obtained on the property if so desired.

With sale leasebacks you have to be careful that the tenant is doing a sale leaseback for a good reason. You have to look for warning signs such as the tenant is over-leveraged financially, they are wanting to sell the business to a weaker tenant, the terms they are offering on the leaseback are not within market values, etc. If a buyer is not careful they could purchase a sale leaseback only for the property to go *dark* shortly thereafter.

### **Build to Suit (BTS)**

This is an agreement between landlord/developer and tenant to construct a building on their property to the tenants' specifications.

The landlord/developer usually owns the land already or will acquire the land sought after by the tenant to build on.

Since the property is not yet built (early in the process) and the tenant has yet to take occupancy and be open for paying rent these types of situations may not be optimal for a buyer's 1031 exchange. Construction timelines may be delayed. Build costs may go higher requiring the lease to be altered as well as the price which might not now fit the buyer's goals. If delivery is delayed then financing to the end purchaser might change for the interest rate, the amount of the required downpayment, and the length of the fixed loan term.

A buyer has to be patient on a build to suit and be comfortable with all the variables involved that could happen purchasing from a BTS Landlord/Developer.

### **Zero Cash Flow property (ZCF)**

This is where all the monthly payment in rent from the tenant goes to pay down the mortgage each month. The loan usually is tied to the primary years on the lease term from the investment grade tenant. This way when primary term ends before the option periods start, the property will be paid off free and clear.

#### Positives

1. It can be a fast way for a property owner to build equity in the property.
2. There can be accelerated tax benefits early on with ownership that run with the property. A ZCF lease falls under IRS code section 467. *Structured depreciation* has the ability to show a tax loss which can more than cover principal payments for the first

10 to 15 years of the loan. It is important to check with your tax professional about your individual situation tax and how a ZCF property might work for you.

3. There is a pay-down/re-advance feature. This can allow you to buy into the property with less of a down-payment than is normally required on NNN properties. Under normal circumstances most lenders want 30% down or more to buy a NNN property. With these ZCF properties since all the payments are going toward the mortgage some lenders allow 80 to 90% LTV. This can result in a buyer purchasing a NNN ZCF property with as little as 10% down. In most cases the ones being sold have had a few years come off the lease so equity down payment is more toward 15 to 20% down. The re-advance feature can allow you to take excess funds above the equity down payment requirement and re-advance back out tax free cash to re-deploy how you see fit.

**Example:** A CVS pharmacy with 15 years remaining is a Zero Cash Flow property. You have 1031 exchange proceeds of \$2,500,000. The property is a \$5 million purchase and equity down payment requirement is \$1,000,000. You can put down the \$2,500,000 and instruct the lender prior to closing to re-advance those additional funds of \$1,500,000 from the exchange. There are time restriction covenants of the mortgage that must be followed to make the request. It is important that a buyer uses a commercial real estate attorney well versed in ZCF properties so that proper procedures are followed and all is in compliance.

#### Negatives

1. The main negative is possible phantom income when the subject property no longer amortizes at a loss. At that point the owner can incur more taxes with the principal pay-down of the loan. This usually happens later on in the advanced years of the primary term of the lease.

2. The property is illiquid with the special pay down of the loan and has a smaller pool of buyers looking for ZCF properties.

Now that we have discussed the various types of NNN leases this is a good segue to dive in and look in depth at credit grade rated tenants and non-credit grade tenants and their various risk profiles.



### CREDIT GRADE OF TENANTS

It is important when looking at buying a NNN STNL property that a purchaser can analyze the strength of the tenant for security of the *passive* cash flow stream over time. The purchaser wants to feel comfortable that their investment is sound and will be successful over the long term.

You have 3 main rating agencies that underwrite public companies for businesses. Standard & Poor's, Moody's, and Fitch's.

Most NNN lenders look at Standard & Poor's ratings. Statistically the higher the credit grade and rating the *less* of a chance of possible default by the company being evaluated.

There is credit grade and then investment grade. Credit grade can

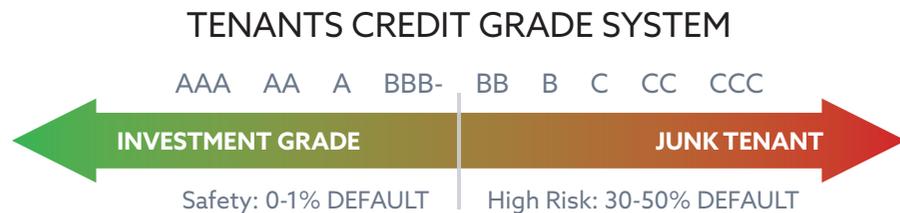
be rated but be junk status by Standard & Poor's. Most lenders like to see investment grade credit and for Standard & Poor's that is a rating of BBB- or higher.

Here is a Standard and Poor's chart and what the default percentages run on average based on rating. Standard & Poor's constantly monitors the varying businesses to assess how they are currently performing, their debt ratios, and what the outlook is for the future.

Global Corporate Annual Default Rates By Rating Category (%)

	AAA	AA	A	BBB	BB	B	CCC/C
1982	0.00	0.00	0.21	0.35	4.24	3.18	21.43
1992	0.00	0.00	0.00	0.00	0.00	6.99	30.19
2002	0.00	0.00	0.00	1.02	2.00	8.20	44.44
2012	0.00	0.00	0.00	0.00	0.30	1.58	27.52
2020	0.00	0.00	0.00	0.00	0.93	3.52	47.48

As you can see by this chart, historically the BBB rating or higher is a very safe tenant grade because of their low-to-zero default rating.



The best loan terms are typically available for the investment grade tenants for interest rate and lowest down payment percentage (usually around 30% down). It is important to note that a for sale flyer or offering memorandum might mention an investment grade credit parent company but they may not be backing the lease. Since they are not backing the lease, mentioning the parent company is irrelevant. In addition sometimes a subsidiary of the parent company is backing the lease with a regional area of stores - e.g. multiple states, instead of all the stores nationally — which can be a weaker guarantee.

There are also larger *private* companies that are not credit rated or public companies. Some private companies still disclose financials and lenders know them as strong performers so can give good loan terms even though not credit rated. Those typically are 35% down minimum versus 30% for investment grade tenants.

Generally the strength of the lease guarantee is based on what I call the *5 Levels*.

Highest guarantee whether Public or Private company:

**Level 1**

Parent corporation covering all stores and locations nationally

**Level 2**

Subsidiary of the national company covering so many states

**Level 3**

Large franchisee with hundreds of units operating in the brand system for decades

**Level 4**

Small franchisee with just a few stores.

**Level 5**

Non-franchise tenant small mom and pop business local to the area

As the size of the company and years in business gets smaller the risk factor can go up. The chance of tenant default and the property the buyer purchased going dark can increase.

You have to look at the size of the company.

- Are they doing well with physical stores or are they moving to an online model?
- Who is leading the company?
- How old are their stores?
- Can they handle the in-place rent to drive profitable sales per sq. ft., etc.?

When the company is national in nature, financials can be easier to come by with stock reports to shareholders.

With a smaller company you need to see if they disclose financials, both business and personal, per the lease, to see the overall health of the business. If it's a single LLC backing the lease, the tenant can remote bankrupt that one location and walk away keeping their other stores going. With a personal guarantee you want to analyze if their liquidity and net worth is tied up into hard-to-reach retirement accounts or general funds that can be more easily recovered from if the tenant defaults.

Along with credit grade of the tenants we want to be looking at the location itself. I like to call it *Dirt First*. The next chapter will be going over *location* in depth.



4



#### LOCATION

URBAN CORE  
STRONG SUBURBAN  
WEAK SUBURBAN  
RURAL

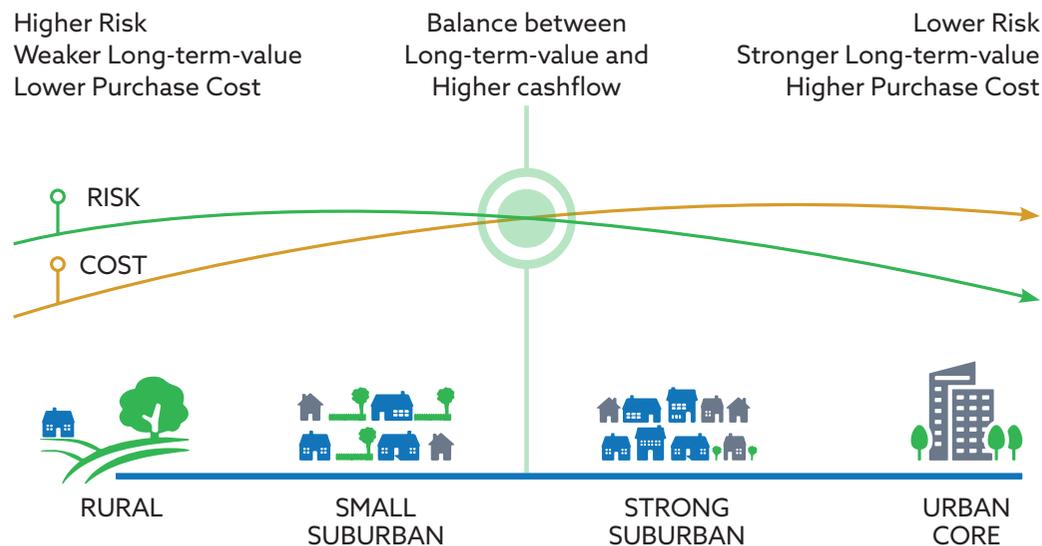
In real estate... what is that saying? *Location, location, location!*

Whether residential or commercial the same rings true. Desirability of a location comes down to positive attributes that the tenant or property owner is looking for.

Generally unless you live in a rural area and understand the nuances of that area to a high degree of knowledge, most buyers stay out of these locations for investment purposes.

Rural locations to weak (small) suburban areas often carry the most risk to an investment because they are often in what we like to call **one economy** towns. This means a major employer is employing a big percentage of people in the town and if they go out of business the other smaller businesses tend to close down as well. This creates a ripple effect where it is hard to find work and the population starts migrating away to growing areas where there is more opportunity for their families to thrive and be successful.

### Finding the sweet spot



Rural to weak suburban areas tend to be the FIRST to go down in an economic free-fall and the LAST to bounce back in an economic recovery.

Also lenders tend to shy away from these types of weak locations because risk is higher, so only local banks want to lend on those properties with not so great interest rates, loan terms, etc.

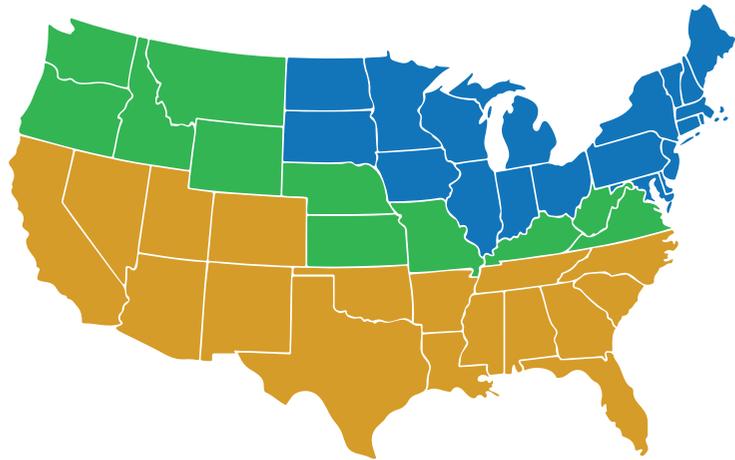
Conversely **Urban Core** to **Strong Suburban** areas in a downturn tend to hold values better and recover more quickly. These areas often have many major employers propping up the economy so if one goes out there are many others keeping the economy going and thriving. The development authority for the state, county, city can then work to fill the employer (company) that left the market with another high quality employer.

Right now there has been a big movement happening with retirees moving away from cold belt states to warm belt states. So what is happening in cold belt states is lots of areas are contracting for investment and business growth. Those areas are often overbuilt so when a building space goes dark it could take years to lease up with a new tenant if at all. The eventual tenant could be local versus a strong regional or national tenant that usually pays more in rent to lease the space.

So in cold belt states we often mention investors need to be very careful where they buy. There are more limited pockets of population growth with high income to invest in versus overall more outward larger growth occurring in warm belt states.

National and regional tenants want to **follow** the **people** and the **money**. They often target their expansion plans to markets with strong growth for income and population levels where they can achieve high sales per foot for their business model and great profitability.

So where is everyone buying currently for NNN assets? We are seeing a lot of activity to the following warm belt states. GA, FL, TX where a big portion (about 70%) of net migration is moving away from cold belt states. The other states with high interest are AZ, NV, NC, SC, TN. Some states might offer additional tax benefits being (no income tax states, like TN and FL). It's important to check with your tax professional to discover the possible advantages for your particular investment situation.



Of course there are other desirable states in both warm and cold belt states. Often we have a conversation about where a buyer would like to ideally own a property and look in those areas first.

It's important to know that population only is not a defining factor in investing for a location. Some areas can have high concentrations of people but very poor income levels and high crime. So there is not security in higher numbers alone that make for a potential good investment.

### 5-50-55 Guideline

Typically a guideline most lenders like to see is 50,000 people in a 5 mile radius and an annual median income close to the national average of \$55,000.

Even in a good quality area all locations are not treated the same.

- The access to the property
- The sight lines to a property
- The daily traffic counts
- The going-home side vs. the going-to-work side of the street

	SUN BELT	MID REGION	FROST BELT
Growth	HIGH	STABLE	NEGATIVE
Sustainable Investment Options	MULTIPLE	AVERAGE	ISOLATED POCKETS

- Close access to the interstate
- Daily feeder traffic to the site with junior and large surrounding anchors (Starbucks, Wal-Mart)
- The parcel shape and layout with road frontage

All these metrics and more come into play when looking at a NNN STNL or MTNL property.

### Example:

**Access** — The property could have an easy turn in or very difficult path of entry where you have to go down far and turn around a median with no red light to access the property. Also, you could have a property once you turn in has no additional access to other properties with a road cut through and instead have to go back out onto a busy highway to get to another property.

**Sight lines** — You could have a property where the tenant is down in a hole with limited visibility or up very high. Generally a property flat to the road or with a very slight elevation is best for

sight lines and helping a consumer to easily see and find a property.

**Traffic counts** — The rule of thumb is most tenants want to see about 15k cars a day (minimum) go by their site. Anything below 15k cars a day and the number of tenants that want to go on your property can decrease significantly. On most non-interstate roads the highest you will see is 50 to 60k cars a day although 25k cars a day is generally seen as a healthy metric.

**Going-home vs. going-to-work side of the street** — You can have a type of tenant that is on the wrong side of the street for their business model. Example a tenant that is open for breakfast, lunch, and dinner but 70% of the business is breakfast and they are located on the going home side of the street instead of the going to work side. Additionally you can have 40k cars a day but with a median in the middle and find out the property you want to buy that side only gets 10k cars a day and the other side across the median gets 30k cars a day.

**Tip** — Check with state Department of Transportation to make sure there is no road widening happening that ongoing construction would affect the viability of your tenant to make money and consumers to have easy access to the business. In addition check that the DOT would not be using eminent domain to take part of the parking lot to widen the road thereby affecting the parking ratio for your tenant's business. Generally if non-interstate roads are widened already with 4 to 6 lanes and have high traffic counts then they do not widen any further. If road count is increasing year over year to 20k, 25k, or 30k cars a day, and it is still a 2-lane road, the chances of widening are high due to congestion issues and proper traffic flows.

**Closeness to Interstate access** — A key component to location is being near the interstate. You not only get local consumers but also travelers to your tenant's business. Many main commercial

corridors will want to build around the interstate exit ramps.

**Daily feeder traffic to the site with junior and large surrounding anchors** — Having small anchors close by (Starbucks, Chick-Fil-A, McDonald's) & large anchors (Wal-mart, Costco, Target, Lowe's, Sam's Club, etc.) can help daily traffic to your tenant's business by being in proximity to these more well known high quality tenants. It can be a plus to have a cross easement road where they can go from one of these name brand tenants and drive right next door to your tenant's place of business. Consumers want ease of access and *one-stop* type shopping to save time.

**The parcel shape and layout with road frontage** — For optimal design most tenants prefer a square shaped or rectangle land parcel with a good amount of road frontage. Long and narrow lots or triangle shaped pieces of land often pose severe challenges to good site layout design. National tenants often pass on locating a business on these sites unless it is the only spot available in a highly desirable area. In that case the tenants will usually do everything they can to get creative with their architects to make a site work. So it is critical when looking at a piece of property to determine is this a site the tenant wants to be at long term or was it just to open up business in that area to get market share? You do not want the tenant trying to relocate away from your location in the future because it was not an optimal location.

Now that you have defined location parameters let's discuss how lenders view NNN properties for the best rates and terms.



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## FINANCING FOR SINGLE TENANT PROPERTIES

Potential clients often ask me “What is the interest rate on a commercial real estate loan?” The short answer would be “It depends”. I do not actually answer the question in that manner but instead start the conversation by asking the client several questions about their situation and the specific type of property they are considering. Before I can provide guidance to the client on loan terms, I need to gather information.

Commercial banks, credit unions, life insurance companies, debt funds and CMBS lenders are all potential sources of debt capital for single tenant net leased (STNL) and multi-tenant net leased (MTNL) properties. The choices of which type of lender and the specific lender for a particular property are heavily influenced by

- (a) the buyer client’s situation/financing requirements and

- (b) the characteristics of the property.

**Questions regarding the buyer situation and requirements for debt capital include:**

- How much cash is available through 1031 exchange or other sources to fund the down payment and closing costs? The amount of cash to invest relative to the purchase price determines the Loan-To-Cost (LTC) ratio. This is an especially important metric for lenders.
- How long does the buyer expect to own the acquired property?
- What amount of net cash flow does the buyer desire from the property? The answer to this question helps to determine the loan amortization schedule that is needed to achieve the cash flow target.
- Is it important to the buyer to have flexibility to pre-pay the loan with little or no penalty?
- Does it matter to the buyer whether the loan will be full recourse, partial recourse, or non-recourse?
- What is the net worth and liquidity of the buyer? Lenders generally want to see buyer net worth of at least the requested loan amount. Buyer should generally have at least 10% of the loan amount in post-closing liquidity (cash and marketable securities outside retirement accounts).
- Does the buyer have experience owning commercial real estate properties? Experience is generally more important in MTNL acquisition than for STNL.

**Facts about the property that are important to potential lenders include:**

- Financial strength of the tenant (STNL) or tenants (MTNL).
- Remaining lease term, including the weighted average # of years to lease expiration in MTNL. For STNL, lenders want an absolute minimum five years remaining lease term and most require at least 7-8 years left on the lease.
- Mix of tenants in MTNL - national, regional, local.
- Location of the property – primary, secondary, tertiary or remote market.
- Demographics of the location, especially the population in a 5-mile radius of the site.

**Tenants**

Tenants can be generally classified in these categories:

- Public companies with “investment grade” bond rating. The investment grade ratings from Standard & Poor’s (S&P) are AAA (highest) through BBB- or equivalent rating from Moody’s. These are the strongest and most desired tenants due to lower risk of lease default.
- Public companies with lower than “investment grade” bond rating (BB+ or lower).
- Large private companies which may have a bond rating but usually do not.
- Franchisees of national brands – lenders usually want the tenant to be operating 20+ and preferably 40+ units.
- Local tenants or other operators of non-national brands.

## Notes:

- Tenants that currently have an investment grade bond rating include Walgreens, CVS, Fresenius Medical Care, DaVita Dialysis, O'Reilly Auto Parts, Advance Auto Parts, AutoZone, Starbucks, Sherwin-Williams, Tractor Supply, Dollar General, Family Dollar and Dollar Tree.
- Many Offering Memos (OM) will state the tenant is a “credit tenant” but from a lending standpoint, the only credit tenants are those with investment grade bond ratings (#1 above).
- OMs will also sometimes refer to lease guarantor as “Corporate” but that does not mean much. The lease documents must be inspected to ensure that the investment grade company is the lease guarantor (as in #1 above) or in tenant types 2-4 above, the lease guarantor and/or tenant entity is sufficient to satisfy the lender’s requirements for tenant size.
- If a private company or a franchisee is the single tenant or a large tenant in a MTNL property, the lender may require financial statements from the tenant.

## Single Tenant Lenders

The best and most active lenders for STNL are those that specialize in financing STNL with a national lending program. Some STNL lenders will only consider properties with the top tenants (see #1 above). Others will consider most any national brand tenants (#s 1-4 above) but virtually none will finance properties with local tenants (#5 above).

National STNL lenders are typically commercial banks and credit unions that have a specialty finance group within the company that focuses exclusively on financing STNL properties. These STNL groups are very professional and exceptionally reliable to

close on the terms they quote early in the process. The minimum loan amount for commercial banks and credit unions ranges from \$500,000 to \$1,000,000. Life insurance lenders will typically have a higher minimum loan amount.

## Multi-tenant Lenders

MTNL lenders are more numerous and varied in their approaches. Some have national lending programs and others are regional in scope. Lenders expect that MTNLs will have a mix of tenant types. MTNL lenders get cautious when the property exhibits certain risks such as a large tenant that is weak or the lease has a near-term expiration, weighted average remaining lease term is short (<5 years) or the property is located in a market that is declining in population, has low population or has high vacancy.

For more differences in MTNL financing *see chapter 13.*



## Loan Terms

Loan terms will significantly vary based on the property, location, tenant(s) and amount of leverage the buyer is requesting. Below is a general guideline:

	STNL Lenders	MTNL Lenders
Maximum Loan Amount	65-72% LTC	60-65% LTC
Fixed Rate Duration	5-15 Years	5-10 Years
Loan Term	5-15 Years	5-10 Years
Amortization Schedule	25-30 Years	20-30 Years
Lender Origination Fee	Zero to 0.50%	Zero to 1.00%

Loan terms are generally superior for

- (a) financially strong tenants,
- (b) longer lease terms,
- (c) locations in vibrant markets with dense population and
- (d) lower leverage loan requests.

## Loan Application Process

- When a buyer is considering a property to acquire, and the buyer will need financing, the loan application and closing process is managed by the commercial mortgage broker and generally follows this direction:
- Initial conversation with client to clarify client situation and financing objectives.
- Collect financial information from buyer such as personal

financial statement (PFS), schedule of real estate holdings (SREO), tax returns, bank & brokerage statements, resume, etc.

- Obtain “soft quotes” from potential lenders that are considered the best financing sources given the client situation and specific property/tenant.
- Provide guidance to the client regarding relative advantages of each lender quote.
- Buyer selects the lender with which to apply for the loan.
- Buyer signs fee agreement engaging mortgage broker to exclusively represent the client to arrange the financing and close the loan.
- Prepare application documents for buyer to sign; buyer sends deposit to lender for third party reports (appraisal, Phase I report, survey).
- Schedule site visits for third-party vendors through the listing broker.
- Ensure that Estoppel and SNDA documents are ordered from the tenant(s) with correct data.
- Work with lender’s loan processing team, real estate brokers, title company, attorneys and third-party vendors to close the loan and complete the acquisition transaction.



## STNL DUE DILIGENCE

With STNL (single tenant net leased) properties there is often a misconception that these are easy to buy and you can't go wrong purchasing a single tenant NNN property. Nothing could be further from the truth. Both as an investor myself and a principal broker I usually review over 1,000 single and multi-tenant NNN properties a week.

What I have found over decades of time active in the space is there can be a lot of *lemons*.

Here are some *Key negative* items to watch out for.

- Overinflated rent
- Weak Tenant

- Mid Block location with little activity around the site
- Older building with landlord responsible for roof/structure on a NN lease
- Poor sight lines (down in a hole – up on a hill)
- Bad access (Median to turn around, turn in no traffic light or stop sign, etc.)
- Leasehold property
- Under 6 years remaining primary lease term
- Not close to main intersection
- Surrounding tenant poor quality and doesn't draw much traffic
- Business located on wrong side for type of company (returning home or going to work side)
- Lease structure not optimal (little to no rent guarantees, early termination clauses, zero rental increases, restrictive business use language too heavy for landlord, excess fees charged for ordering of estoppel and SNDA from the tenant, business owner can sell business without owners approval of new operator, no ongoing financials disclosed personal and business from the tenant so landlord can track how well they are doing and chances of long term success at the location, no sales figures, *rent holiday* in primary term of the lease, etc.)
- Low traffic counts (under 15,000 vehicles a day)
- Low population areas (rural, small suburban) – *under* 50k population 5 mile radius
- High crime areas (pay special attention to violent versus non-violent ratios for offenses)

As you can see this is just scratching the surface of what to look for and may be surprising to potential purchasers of STNL NNN that all these metrics and more are involved.

Here are some *Key positive* items to look for.

- Below market to at market rents
- Investment Grade Credit Tenant
- Central Location at or around red light with high traffic counts
- Brand new or newer construction with warranty for the building and the roof
- ABSOLUTE NNN with no landlord responsibilities
- Great sight lines (Level or slight elevated ). Easy to see from far away.
- Great access (Ability to easily turn in from the red light and many interconnected roads within a commercial development to get around without having to go back out on the highway).
- 7 years plus remaining primary lease term (preferably 10 to 15 years)
- Excellent surrounding national brand name tenants large and small (Starbucks, Wal-mart, etc.)
- Your tenant with their business model located on optimal side of daily road traffic for success
- High population areas – 50k plus in 5 mile radius (Strong Suburban & Urban Core)
- Low crime areas with well staffed police and fire services



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## WORKING WITH A COMMERCIAL BROKER STNL NNN (SINGLE-TENANT)

Often times I hear potential clients wondering what they should be looking for in a single tenant NNN broker?

To know what to look for you have to understand the commercial NNN STNL space and how transactions happen which not a lot of people talk about.

On the listing side with most major firms their structure is set up like this. If commission to the brokerage is \$100,000 on the seller side of a transaction then about 50% (\$50,000) goes to the main brokerage and the remaining \$50,000 is split among the listing broker team members (usually 2 to 3 people). The senior broker in the business the longest gets maybe \$25k out of the \$50k and the

remaining 1 to 2 agents get the rest of the \$25k to split.

As you can see there is very little leftover for the brokers on each transaction on the listing side when they work for someone else. So the goal of most listing brokerage teams is *volume* where they have to *sell, sell, sell* to make any substantial money for themselves. Since I am the principal broker at **NNN INVEST** I get to keep all of the fee as it's my company. This means the listing brokers have to do sometimes 4 to 10 transactions to my 1 to make the same money.

For a *buyer* working with a major firm usually means the listing brokerage does not have your best interests at heart. They represent the seller and want to sell whatever the seller wants them to. This could be a *bad, mediocre, or good* property. They try to talk whatever buyer inquires on their properties to sell why it's a great deal, accentuate whatever positive attributes they can find and be *silent* on the negatives.

Often times to them it's just another transaction or deal to close. This is not all listing brokerages and there are some that still do right by buyers but are few and far between so the odds of that scenario happening for you is small.

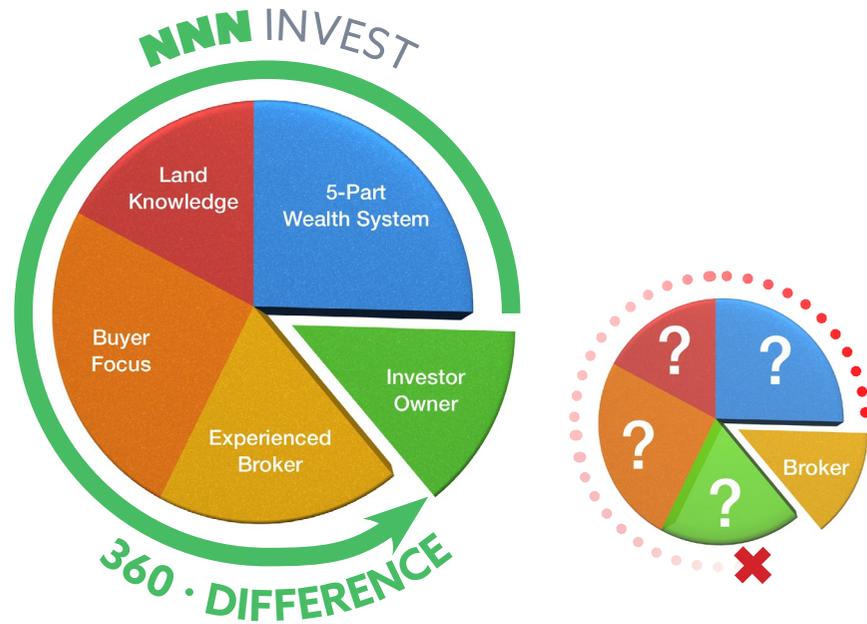
Where the listing broker is selling you whatever is in their inventory the buyer broker is not bound to that constraint because they do not represent the seller most times. *Instead* the buyer broker can look through their *custom national database* they have built over decades of time to get the buyers first looks at *pre, on,* and *off* market properties. Since the buyer broker in the business over decades of time is highly successful and wealthy they do not need to live on the transactions like the listing teams do. The buyer broker can look for the *diamond* properties to present to their exclusive clients and be open and honest about what they think of the properties and let the *buyer decide* what they want to do. This is a very important aspect of the transaction. The buyer broker worked hard to get where they are over decades of time so

understands how hard the buyer had to work for that *money* they now want to INVEST. The listing brokerages like working with **NNN INVEST** because we are known in the business and have a reputation for success. The listing brokers doing volume know the likelihood of the deal closing is high because the buyers have been properly vetted before **NNN INVEST** works with them and **NNN INVEST** will help guide them through the buying process. This helps the listing broker when they close deals to win more deals from their sellers. If the listing brokers work with unknown buyers and the deal falls apart it can make the listing brokerage get *egg on their face* and lose future business from the sellers. When listing brokers do not have much time they want to hand off to a buyer broker that knows what they are doing so it often helps my clients win deals when we go up against multiple offers.

We stay away from *request for offers* properties because with multiple rounds of bidding amongst buyers and financing changing before the winning bid is accepted, it's often a bad deal for a buyer. We like to deal with the seller one on one and either take our deal or move on to another seller's property.

So with all that said this is what to consider:

### THE NNN ADVANTAGE BUYER DIFFERENCE



#### NNN INVEST

#### OTHER COMPANIES

	360° Perspective		Limited Perspective
✓	Investor Owner Experience	✗	Typically not an investor
✓	Broker Experience	✗	Typically new agent with limited knowledge and experience
✓	Focus on buyers	✗	Focus on sellers
✓	5 – part wealth system	✗	None
✓	Land experience assembling development projects	✗	Doesn't know much about land

NNN INVEST has a *5-part Wealth System* that helps buyers *locate*:

- National Network of Property Owners
- Retail Property Management Companies (if needed)
- Attorneys with NNN Expertise
- 1031 Exchange Companies
- Best Lenders in the Country

NNN INVEST has developed a process to help the buyers reach their goals that highly increases their chance of success when purchasing a property.

Read what some of our happy clients have to say about working with NNN INVEST.





**Paul L Jones**  
DDS, ABDSM

*I had heard Joel at NNN INVEST being interviewed on a real estate podcast show and his expertise with NNN properties sounded exactly like what I was looking for. I had sold some apartment buildings and wanted passive returns for my real estate. **I ended up purchasing 3 properties with NNN INVEST for my 1031 tax deferred exchange.** As a doctor with limited time and a hectic schedule I want my real estate working for me instead of the other way around and NNN properties does this with investment grade tenants. I had a great experience and currently **buying my 4th property** with Joel and his team.*



**Irina Gavrilov**

*Venturing into NNN investing from residential was frightening and new but Joel made the process easy. **He was available to answer any questions I had and made the process less stressful by connecting me to a lender and an attorney. The commercial property investing is not the same as residential and Joel knows it best.** I didn't know Joel personally, only through Bigger Pockets but I felt comfortable to work with a person I have never met. His BP reputation spoke for itself and I knew I was in good hands. I have bought a second property with him and would recommend him to anyone looking for a top notch commercial broker.*



**Nik Suri**

*Working with Joel has been great. He is very knowledgeable, honest and aggressive when it comes to getting the deal done. **Joel is extremely responsive and has a wealth of knowledge & resources in commercial real estate. Truly a superstar in this arena!***



**Maya Shirvani**  
Retired

*When I decided to invest through 1031 exchange my research led me to Joel. I found him on a Real Estate forum. His responses to people's Real Estate questions were very detailed and it had a caring tone to it. I contacted him and after our talk I decided that not only he is an expert in his field but also I could learn from him as a Real estate agent. **I just closed on my purchase and I couldn't be happier. Joel would answer all my questions in detail. Another plus for me was that he's very responsive.** His quick replies to emails and calls were greatly appreciated. The fact that I haven't met Joel yet, and decided not to visit the site, tells you how comfortable I was with him and his expertise. I would definitely recommend Joel, in fact I can't wait to work with him again. Thanks Joel!*



**Dr. Nelson Wong**

*I highly recommend Joel Owens and his team at NNN Invest. He is very knowledgeable about the commercial property market and can help to steer you towards making a sound financial decision. **The commercial NNN market is full of potential minefields and it is important to have someone who has the ability to help you wade through the bad and not so good deals to find the one that fits your requirements.** I intend to use Joel and his team again in the future.*



**David Gardner**

*Joel and his team really helped select the right NNN property. I've owned some shopping centers but wanted to sell those for a single tenant NNN property that was passive. I found Joel on Bigger Pockets and was impressed. Joel helped me 1031 exchange into an Advanced Auto Parts with a long-term lease with a corporate guarantee.*



**Michael Powell**

Joel Owens is a **true professional**, and **his team added tremendous value** during the CRE acquisition process. I would definitely do business with NNN Invest again. Thank you!



**Gilmer Castellon**

Joel Owens made the purchase of our first **NNN property very quick, simple, and easy to understand.**



**Dr. Young An**

I have worked with several commercial real estate brokers over the past decade, and Joel Owens has been the most knowledgeable and resourceful broker I have worked with. He has a superior understanding of market dynamics and does an excellent job vetting properties, far better than the average broker that just wants to get a deal done. I appreciate **Joel's ability to select properties that meet my personal investment criteria and apply his expertise to help me save time and effort during the due diligence process, which is important to me as a physician with a very busy clinic and surgery schedule.** I definitely plan to have Joel help me with more real estate purchases in the future.



**Tim & Dr. S. Smith**

My wife and I were trying to do a 1031 and were striking out on all fronts. A friend introduced us to Joel, who was quickly able to find us a number of properties that suited our investment strategy. Joel had all the resources to get the job done, and we closed in time to complete the exchange. **I am excited for our future with this property. I would highly recommend Joel to my friends and family, and I will definitely reach out to him the next time I want to invest in commercial real estate.**



**Dr. Ravinder Mahal**

**Joel helped me START to FINISH with the process.** From identifying what I wanted, helping me find the right property, introducing me to lenders through a mortgage broker contact and contract review was with me the whole step of the way.



**Breana Thomas**

Joel did an excellent job walking me through the process of buying my first NNN property. He was available to answer any and all questions and concerns I had. I wish I had started buying commercial sooner! **Having a corporate-backed leased property has been stress-free.**

Have you considered buying a single tenant property with **NNN INVEST?**

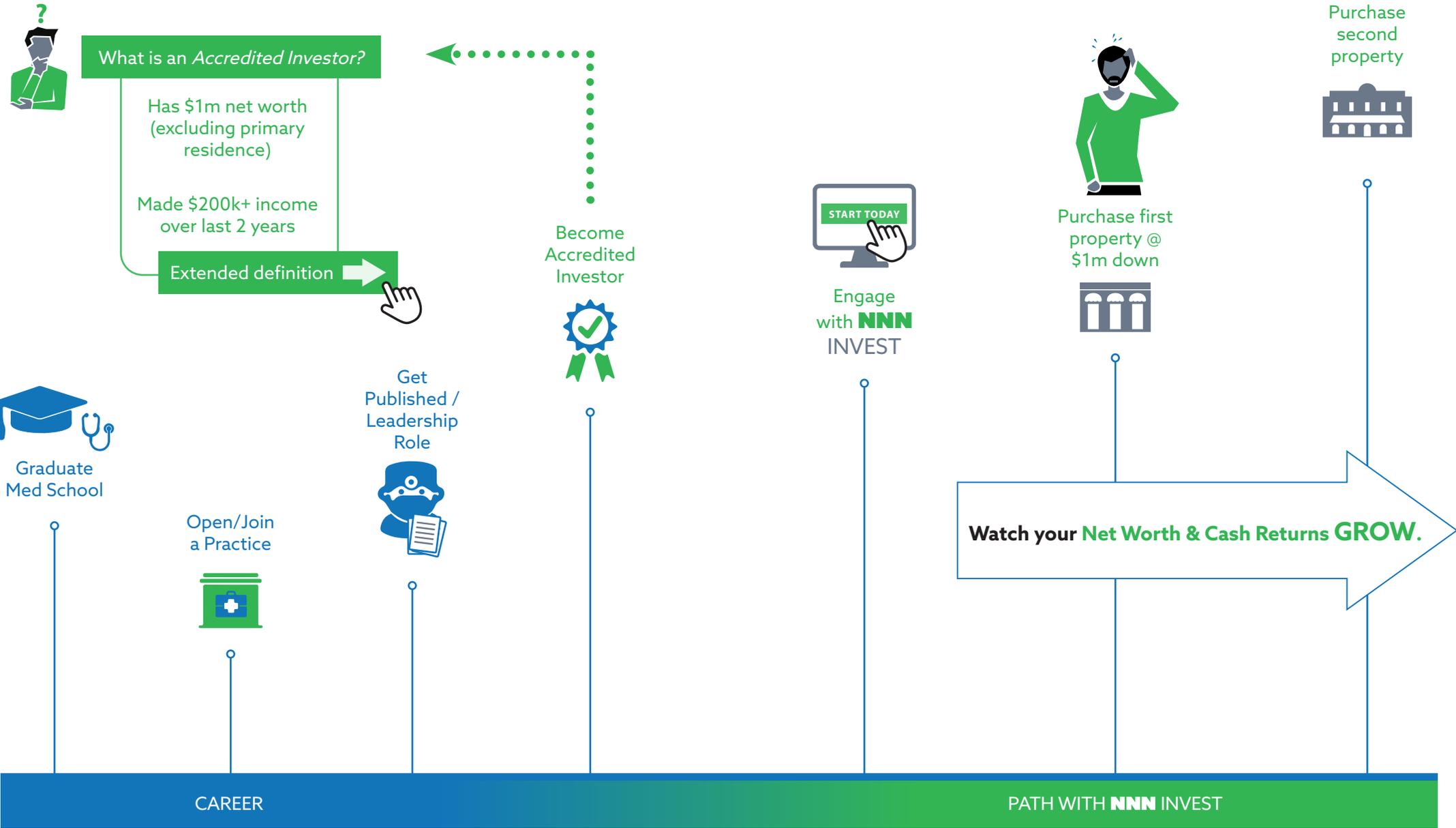
**START TODAY**

TO WORK WITH **NNN INVEST**

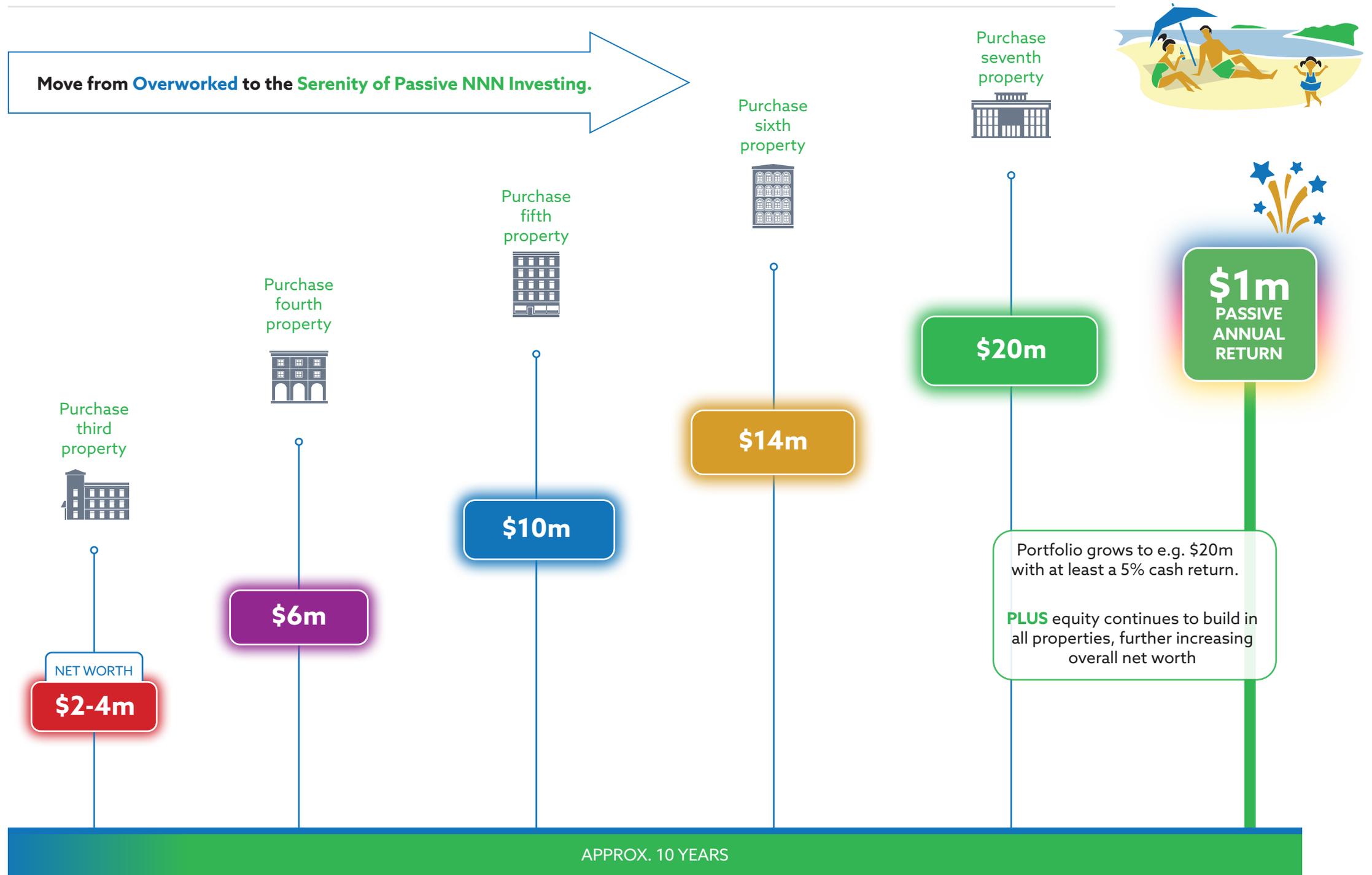


# How it works

We can map out a path to passive income, going from overworked to passive income—coming in worry free. If you are, for example, a physician, this path would look something like the following:



PATH TO \$1MILLION ANNUAL PASSIVE INCOME





## 1031 EXCHANGE TIMING

The 1031 Exchange can be one of the most important tools in an investor's investing career. One of the *main* benefits is to *defer* taxable gains. When you own a property over time you can typically take a certain amount of depreciation on the property depending on the asset type. Different asset types have different depreciation schedules. There is also bonus depreciation available currently (tax laws are ever changing so consult your CPA for the latest information).

To maximize wealth over time the 1031 can help roll depreciation recapture & capital gains into another property. If a property owner just sold and did not 1031 exchange the taxes in some states combined with Federal could be over 50% of your profit (gain)!! Talk about hampering wealth! That is why investors *love* the 1031

exchange as you can keep rolling into larger and larger properties with more NOI (net operating income) and cash flow and then leave to heirs at a stepped-up basis. This basically means all that depreciation recapture and many millions of capital gains taxes or more goes away and the heirs get the property at today's value instead of the price when it was bought with the person that passed away.

So making sure a 1031 exchange is successfully executed is a **very important** component to real estate investing success.

During the process for a 1031 exchange, the main error I see with sellers is improper planning. They wait until their property is almost sold before taking any action. They do not often engage 1031 exchange companies so do not know how far in advance they need to reach out. When they finally reach out the sellers have already made mistakes with the timing of the sale of their property and many 1031 companies cannot take them on because of the backlog of 1031 clients that reached out to them earlier in the process.

When potential 1031 clients contact me I tell them they need to plan in **advance**. I get them with one of our 1031 companies that are experienced right away. The seller needs to ask entity formation questions, if multiple partners are involved, or if it's a trust, etc. There are literally hundreds of scenarios that can play out and one misstep can be critical in success or failure. Most 1031 buyers use the 3 property rule. That is where from the time of the sale of their property closing they have 45 days (**ID period**) to locate potential properties to buy. They could buy 1, 2, or 3 properties selected if they have the cash and they qualify with lenders. Typically my clients buy **one** because adding a second and third can be more difficult to coordinate. At **NNN INVEST** we have pulled it off before so it is possible if you start early in the process.

In today's market the good STNL and MTNL properties go fast. About 4% of the United States population (around 14 million) are

millionaires. That is a lot of money and a lot of buyers out there wanting to invest! So to have a chance at winning the game you need to have a great plan of action and execute it early. It's just like a family reunion... if you do not get there early all the good food is gone and left with the less desirable food (properties) nobody wants....LOL!

**TIP:** When you put your property under contract to sell a good idea is to add a clause where YOU the seller can extend closing another 3 to 4 weeks at your discretion from the original closing date. The reason is you may not have found the optimal property to purchase yet and you want to have more time before your 45 day ID period starts.

When the buyer goes to place a Letter of Intent (LOI) on a property the seller is going to want to know a bunch of questions about the buyer and ask the buyers broker:

Is the buyer in a 1031 exchange?

Have they put their property up for sale?

Is the property under contract?

If under contract has due diligence period expired and buyer gone non-refundable with their earnest money?

Has 1031 – 45 day ID period started?

The seller for the 1031 buyer wants to ask these questions before considering their offer. The seller usually only wants to engage a buyer to go under agreement if the property they are selling that buyer to has gone non-refundable with the earnest money OR the 1031 buyer is in the 45 day ID period. In those 2 cases the seller knows the chances of success and getting the funds to purchase are high.

With the 1031 buyer just putting their property on the market for

sale, or just under contract, the seller knows they might not get the 1031 exchange proceeds money to purchase their property.

There is part art and science to having a successful 1031. A big mistake I see is buyers selling their property and then going on vacation with 45 day ID period started. They come back and then have 2 to 3 weeks left to ID a property. That is where mistakes can happen because now the 1031 buyer at all costs doesn't want a failed exchange and owe a HUGE tax bill so they are willing to accept much less yield. Had they started the process earlier they might not be in that situation and then get a property with good returns AND keep the 1031 exchange intact.

It takes more time than people think to locate a good property, put in the LOI for agreement, negotiate purchase and sale agreement with attorneys, and conduct pre-due diligence in the LOI period to make sure the property looks good for financing and cash flow before locking in as a 1031 selection. Our goal at **NNN INVEST** is by the time the 45 day ID period is coming to an end the buyer is already in purchase and sale agreement with the property they want and we have already reviewed the lease and financing looks good. At that point the other 2 properties selected are just back ups.

Typical timeline: *(jump to full timeline diagram on pages 10-13)* 

- Locate a property – quickest 1 week but can take months
- Place LOI (letter of Intent)- Accepted Agreement - 1+ weeks
- Purchase and sale agreement – 2 to 3 weeks
- Under contract and due diligence – 45 days
- Closing on the property – 15 to 21 days after due diligence expires.

So conservatively it could be 3 to 4 months to close on your 1031 replacement property. This is why with a lender it's not about what

the initial quote is but WILL they lock the rate where it will stay fixed until you close?

There are so many steps involved in purchasing a STNL or MTNL property but once you own it the investment is mainly *passive* unlike other type of real estate asset classes. The *no headache* factor is often very appealing to investors because they can live their life happy and stress free without being bothered by problems all the time.



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## CLOSING ON A STNL NNN PROPERTY

Owning a STNL NNN property can often times be very rewarding and require little effort. The misinformation is that there is nothing to do with research when buying a NNN STNL property. There is a lot of review and steps that go into buying a *good* STNL NNN property. Notice I said a *good* property. There are tons of mediocre to bad properties out there where a buyer could lose some or all of their down payment investment. Those are easy to buy and hard to get out of.

Developers and listing brokers often love new buyers to a space with money because they can easily manipulate them into paying a premium for sub-standard properties. There is a reason the developer doesn't want to own the property long term because the tenant is weak, the location, or *both*.

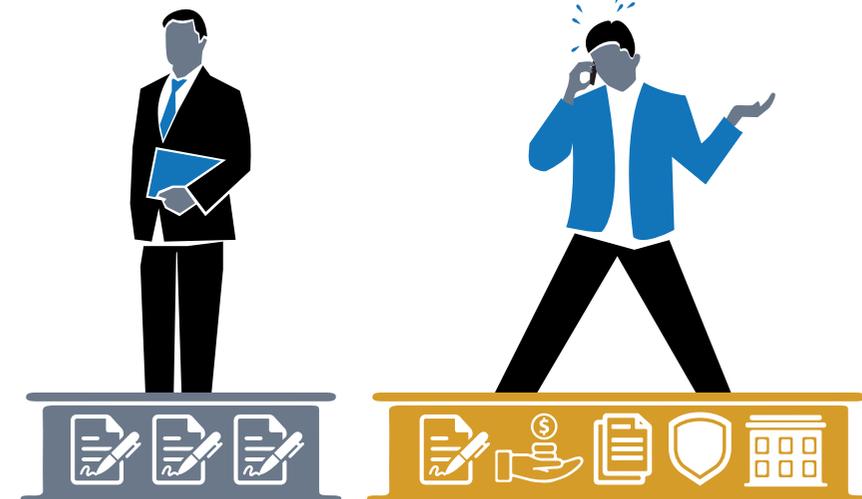
With buying a STNL NNN property you need to think about the value today, the value going forward, and the value when you want to exit the property and buy into something else. After you work on tons of transactions as a broker and also as a buyer yourself you learn things along the way.

Don't work with *dabblers*. These are people that know a little about lots of things but not an expert in anything. They could be real estate brokers, mortgage brokers, commercial attorneys, etc. We ask for instance if attorneys practice litigation work along with transactional work. The reason for this is, those attorneys, even if competent, are often in court and not available to work on a transaction in an expedient manner — making the deal take much longer to close than it should. The longer a deal goes without closing the more expensive the legal fees tend to be and the less chance of it closing due to deal fatigue and other timing factors with the buyer and the seller.

While under purchase and sale agreement the basic process goes like this.

- Purchase and sale agreement signed
- Buyer wires in earnest money and confirmed/received by attorney or title company
- Escrow is opened and the inspection/ due diligence period starts
- The mortgage broker receives the term sheet from the lender. The (term sheet) spells out under what conditions the lender will do a loan and requirements to obtain loan approval.
- Buyer signs the term sheet for lender quote they like and then send in lenders deposit to start the ordering of the reports ( Phase One, ALTA Survey, Appraisal,etc.)
- Reports are bid out by the lender and buyer chooses what timeline and cost provider they want to select.

## DON'T WORK WITH DABLERS



### Transactional Attorney

- Focused on your deal
- Expert in his field

### "Dabbling"

- Attorney, broker, litigator = BUSY
- Average knowledge spread thin

- Pre-lim title is pulled and buyer's commercial attorney reviews.
- During due diligence the lease and any amendments are reviewed along with any special association agreements, old survey, phase one, etc.
- Estoppel and SNDA language are approved by lender and buyers attorney before being sent out to tenant for signature
- Buyer forms LLC if not already formed for an entity in which to hold the title for the property.

- Buyer orders engineer inspection of the building
- As each report comes back any requests are made to the (phase one environmental if further testing is needed, title comments from updated survey, requests for repair with engineer inspection, appraisal review if did not appraise for purchase price or higher).
- Lender reviews reports in underwriting and then if all looks good approves the loan.
- A date is set for closing on the property and lining up mortgage docs for signing.
- The buyer gets the leasing administrator contact for the tenant and gives required information so that tenant can set up payments to the new owner.
- A change of ownership form is sent to the tenant notifying them of the upcoming closing with new owner.

In the next chapter we will address the question, “*Is STNL a viable option for your investing goals?*”

## Example: Critical dates checklist

### From contract to property purchase closing date

DATE	EVENT	NOTES
Jun 22	CONTRACT DATE	date of last signature
Jun 27	S DUE DILIGENCE DOCS	3 bus. days after Contract Date; Sect. 5
Jun 27	EARNEST MONEY	3 bus. days after Contract Date; Sect. 4
Jul 7	S DELIVER TITLE	10 bus. days after Contract Date; Sect. 7b(i)
Jul 22	P OBTAIN & DELIVER SURVEY	30 days after Contract Date; Sect. 7c
Jul 29	P TITLE REVIEW / NOTIFICATION	10 days prior to exp of Contingency Period; Sect. 7b
	S RESPONSE/TITLE CURE PERIOD	5 days after recp't of P's Notification; Sect. 7b
	P TERM FOR TITLE	3 bus. days after Title Cure Period-no later than exp. of Contingency Period; Sect. 7b
Aug 4	S ORDER ESTOPPEL/ SNDA	Estoppel-10 days / SNDA-15 days
Aug 8	CONTINGENCY PERIOD	5pm CST 45 days after Contract Date; Sect. 6a
Aug 22	S DELIVER ESTOPPEL/ SNDA	7 days prior to Closing; Sect. 10c
Aug 29	CLOSING	21 days after exp. of Contingency Period; Sect. 4 Auto-ext. 7 days if S has not rec'd Estoppel/SNDA; if still not rec'd P option to ext. closing for 14 days for Estoppel/ SNDA; Sect 10c

# STNL

## Example HUD Closing Statement & Costs

<b>Summary of Borrower's Transaction</b>	
Contract Sales Price	\$5,200,000.00
Settlement Charges to Borrower	\$138,212.02
Estoppel and SNDA fee	\$1,000.00
<b>Gross Amount Due from Borrower</b>	<b>\$5,339,212.02</b>
Deposit or earnest money	\$150,000.00
Principal amount of new loan	\$3,380,000.00
Credit / Good Faith Deposit	\$7,500.00
Credit per Second Amendment to PSA	\$60,000.00
<b>Total paid by/for borrower</b>	<b>\$3,597,500.00</b>
<b>CASH FROM BORROWER</b>	<b>\$1,741,712.02</b>
<b>Summary of Seller's Transaction</b>	
Contract sales price	\$5,200,000.00
Estoppel and SNDA Fee	\$1,000.00
<b>Gross amount due to Seller</b>	<b>\$5,201,000.00</b>
Settlement charges to seller	\$178,079.50
Payoff of first mortgage loan	\$3,235,421.69
Credit per Second Amendment to PSA	\$60,000.00
<b>Total reduction amount due Seller</b>	<b>\$3,473,501.19</b>
<b>CASH TO SELLER</b>	<b>\$1,727,498.81</b>

<b>Settlement Charges</b>	<b>Paid by Borrower's Funds</b>	<b>Paid by Seller's Funds</b>
Seller 3% fee to NNN INVEST		\$156,000.00
Buyer 1% fee to NNN INVEST	\$52,000.00	
Your adjusted origination charges	\$16,900.00	
Appraisal fee to CBRE, Inc.	\$3,750.00	
Survey review fee to Credit Union	\$45.00	
Environmental review fee to Credit Union	\$90.00	
Flood certification to Credit Union	\$14.00	
Underwriting fee to Credit Union	\$195.00	
Lender attorney fee to Law Firm	\$4,350.00	
Mortgage brokerage fee to Henry St Capital	\$33,800.00	
Appraisal review fee to Credit Union	\$170.00	
Credit report fee to Credit Union	\$33.52	
Membership fee & foundation deposit to Credit Union	\$15.00	
Environmental Phase I fee	\$2,125.00	
ALTA survey fee	\$4,250.00	
Title services and lender's title insurance	\$10,290.00	
Owner's title insurance policy	\$9,510.00	
Commitment fee to Title Service	\$100.00	
Titil search	\$500.00	
Seller attorney fee		\$2,800.00
Government recording charges to County register of deeds	\$54.50	
Deed		\$15.00
Deed stamps		\$19,240.00
Deed-Erecording fee		\$4.50
Bank wire fee to Law Firm	\$20.00	\$20.00
<b>Total Settlement Charges</b>	<b>\$138,212.02</b>	<b>\$178,079.50</b>



## IS NNN STNL RIGHT FOR YOU? PASSIVE VS ACTIVE INVESTMENTS

People are often intrigued by hearing about STNL NNN but what does it mean? What kind of returns can you get? What is an *active* versus *passive* investment?

Active investments tend to be real estate asset classes where you have to *work* and deal with *headaches* for yield. Those properties take up so much of your precious time and life force where you are dealing with constant problems instead of creating amazing life experiences and memories for yourself and your family.

Examples are: Residential houses, 2-4 unit multifamily, mobile home parks, large apartment buildings, storage facilities, office buildings, hotels, etc.

These properties can have higher returns for *active* yield but you have to work for it and those additional returns the investor hopes for might be theoretical and they may or may not materialize and you deal with a bunch of headaches for *nothing*.

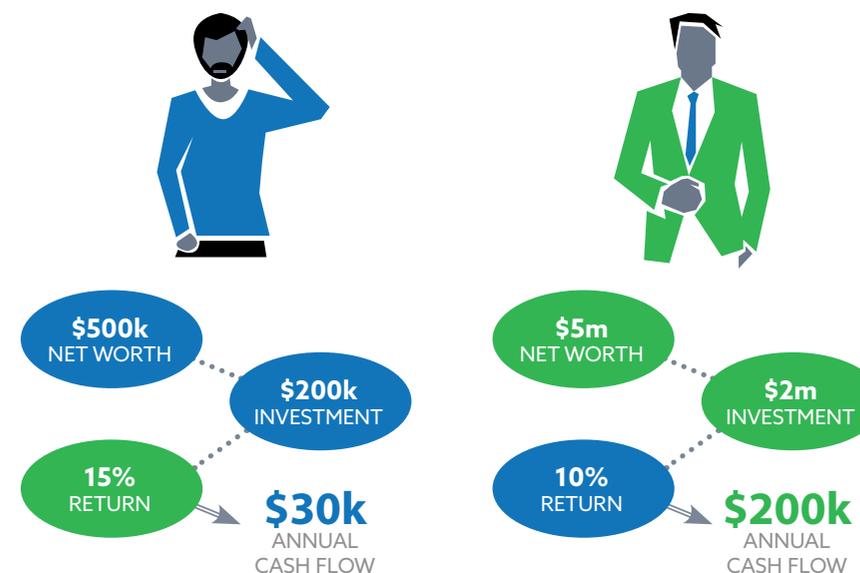
Then *why* do investors often choose these types of investments? They might have a skill set and personality where they do not mind a certain asset class even if there is very high work levels involved. They may also not have the capital to buy more *passive* type of investments like a STNL NNN property. For example, someone could buy a house to rent for maybe \$40,000 down on a \$300,000 property. With NNN STNL for good locations you are talking minimum \$2 million and really \$2.5 million and up properties. So to get going you really need \$750,000 to \$1 million down. As you can imagine for some people that is out of the realm of possibilities so they have to start out with other asset classes with smaller investments and deal with the headaches and hope as they get older their net worth and liquid increases to where they can purchase STNL NNN properties.

Someone 25 years old to 30 years old might be more in wealth creation phase and looking for really high yields and will take on a headache and their net worth might be \$500k, as opposed to a very high income earner at their job or business whose net worth and liquidity is much higher. At much higher liquidity and net worth a person can live off of a much smaller yield.

**Example:** someone investing \$200k with net worth of \$500k even for a headache property with 15% return could not live well off of \$30,000 a year.

Conversely someone with \$5 million net worth could invest \$2 million at a 10% overall return for *passive* with mortgage paydown and live off of the investment. So as people's net worth and liquidity changes and they are financially free, the strategy with money often changes. It becomes more about how the money is made (headache

factor – active versus *passive*) and keeping the money safer in a stable investment with less fluctuations to the cash flow. As net worth increases investors tend to want safety and outpace normal inflation.



So the investor has to decide what is most important to them—*time* and *peace* versus *max yield*. I know for myself personally I want peace of mind and free time to enjoy my *ideal life* as I call it. If getting higher yield with active type headache investments make me miserable, then it's not worth it for quality of life. People love STNL NNN for *passive* investing. Owning real estate is like stocks but with tax benefits and stability. Stocks tend to have little to no tax benefits and can be very volatile. STNL NNN has set rents by investment grade tenants so no matter what the economic cycle you can model out your income stream.

Next we talk about multi-tenant retail centers and *how they are different from single tenant properties*.



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#### WHAT IS MTNL NNN?

A multi-tenant net lease (MTNL) is when you have more than one tenant, typically in a retail center, (although you could also have multiple tenants that are NNN in a medical building or an industrial building). The most common is a retail building.

Unlike single tenant where all the income relies on one tenant, in multi -tenant the income is generated from multiple business owners. That can be a positive or a negative based on the tenant credit quality and structure of the leases. Not all retail centers are NNN leases. Some are more gross leases or a mix of NNN and gross leases. The less straight forward a retail center is with the leases being the same, the more you have to really dig in and analyze the property heavily to see if it is still a viable investment option.

Multi-tenant centers can be more work than single tenant properties but usually still much less work than residential or multifamily type properties. Those properties have to deal with residential/landlord tenant laws, which, depending on the state, can be heavily biased in favor of the tenant.

The level of work with an MTNL center will depend on the number of tenants and whether they are national, regional, franchisee or mom/pop in nature.

Typically the smaller the tenant, the higher the workload and an increase in potential risk.

Residential properties can also be harder to scale (especially the smaller ones) whereas MTNL commercial can be duplicated over and over again with the right systems in place.



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## TYPES OF RETAIL CENTERS

For the purposes of this book, speaking to the more high net worth individual investor, we will mainly focus on two types of centers.

There are many variations and styles of retail centers that have been built over the last 50 years or so. Some different types of centers go in and out of desirability based on how people are choosing to live, and it changes over the decades.



### **The Mall**

I remember growing up in the 1980's you mainly had big enclosed malls. In smaller suburban areas that were emerging and growing, my parents drove me once every 1-2 weeks to the

mall and it took 45 minutes to get there. Before the internet became popular you could see all kinds of merchandise not available anywhere else. It was an amazing experience and fun times.



### E-Commerce

Today most items for merchandise can be found on the internet more than in a brick and mortar store. As consumers can more easily obtain items for purchase 10 to 15 minutes from their house they no longer have a need to patronize these larger malls. The malls are

often outdated and have high rents the tenants pay with less foot traffic to generate sales because the main shopping anchors like Macy's and other brands have shut down those locations and are no longer in business.



### Open Air

There are still some newer built open air malls with high end brands well located right off of an

interstate exit that still do well. One is close to me where I live—the Outlet Shoppes of Atlanta. You can walk around outside in the fresh air and then hop in and out of designer brand stores. I have found when you are spending higher amounts of money for luxury name brands you want to see it in person and try it on first. Consumers tend to take a chance more on cheaper type products online where if the product is not up to standards they usually write off the low amount of dollars spent on it. I just went the other day to the Outlet Shoppes and bought some higher end Oakley sunglasses. I was replacing my older ones but did not know the model and the salesperson knew right away. There is something to be said for in-person customer service and product knowledge that can't be replaced online. In fact some stores that went to online are now venturing back into physical space. They have found paying for keywords online and competing there can be more expensive

than having a brick and mortar store with high foot traffic from customers. There has been a *synergy* and evolution happening in the retail space with businesses trying to figure out the right ratio for online versus brick and mortar sales. This is called *Omni* Channel marketing. This has been going on the for last decade from about years 2010 to 2022.



### Large Name Brand Stores

Larger name brand clothing type stores such as Kohl's have gone from 150,000 sq. ft. stores to about 60,000 to 80,000 sq. ft. They figured out the optimal space for their brand for in person sales versus online.

This is why I feel retail is well positioned for the future. Retail has been evolving and figuring out what the baseline is for the new normal.

If most malls are dying or dead with a few exceptions then where do most people go?

It's the *neighborhood street retail* centers that are popular these days. These types of centers have *essential* based retailers (think food, salon, karate school, medical, etc.) often 10 to 15 minutes from where the consumer lives. Consumers often want convenience and getting many things accomplished in one spot. As an example a mom could drop the kids off at Karate, go to a nail salon, and then pick up pizza for dinner on the way home all in the same place. Talk about *time saved!* Consumers are creatures of comfort, habits, and consistency. They follow the path of least resistance to make their lives as simple as possible.

Not all neighborhood street retail is created equal.

The tenant mix, the positioning of the center, which large anchors

are around it, the parking ratio, where parking is located, the construction quality and design, and much more can all play a part in a *hero* or a *zero* of a property. One makes you and the tenants money and has happy ratings from the consumers and the *other* is a constant money pit with tenants leaving the center, only attracting sub-standard tenants, constant consumer complaints, and giving constant headaches to the landlord with little cash flow to show for it.



### **Grocery**

Another retail center that individual high net worth investors can find attractive is the inline retail centers or *grocery* anchored centers. These centers can have a Publix, Kroger, Wal-

mart etc. as the main anchor and then the retail centers are inline spaces connected to the main building in the middle. The anchors can be high daily traffic draws for consumers to visit the area. The properties could have the middle anchor store as part of the sale or could have just the retail center strip attached on both the left or right sides. With these centers you have to watch out for co-tenant anchor clauses where the if the main tenant goes out the smaller tenants can terminate the lease early or severely reduce the rent rate they pay.

There are other types of centers such as Outlet, Theme, Power, Regional, Super-Regional, Community, and Fashion. These centers are very large in size typically many hundreds of thousands of feet into the millions of sq. ft. and although some individual investors own some of them, the majority are owned by REIT's, insurance companies, pension funds, etc. These properties often cost high 8 figures into 9 figures per property so most of my individual high net worth clients prefer to own smaller centers as to not have a super high concentration of wealth into one place.



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## FINANCING FOR RETAIL CENTERS

The financing for centers varies greatly in comparison to single tenant properties. That is because, as you can imagine, instead of one tenant there could be anywhere from 2 to over 100 at a specific development property. So that can place tons of variables that alter what a lender will do for a loan on a property.

In certain lower price ranges of retail centers, say \$2 million up to \$10 million, most lenders are credit unions, local, regional, and national banks.

With retail centers you have:

- Length of the primary term with tenants (typically 3 to 10 years)
- Tenant Type (mom and pop, small franchisee, large franchisee, regional brands, and national credit tenants).
- Tenant Mix (Essential and Experiential versus clothing type or mattress stores (not ideal))
- Quality of location: (Urban Core, Strong Suburban, Small Suburban, Rural )
- Corridor location: (Mid-block, behind other buildings, at red light)
- 1 story or multiple stories (If multiple look for elevator versus stairs only access)
- Cap rate versus where interest rates are at in the market.
- If any tenants owe back rent (aged receivables report).
- Occupancy levels of the building (what percent filled such as 85,90,95% etc.)

If the **cap rate** is high enough (usually 200 basis point spread between) interest rate and cap rate then could possibly put down 30 to 35%. If cap rate is lower then likely 40 to 45% down.

Interest rates and cap rates are ever changing in the marketplace so best to get 2 to 3 soft mortgage quotes on a property of interest from a capital markets mortgage broker.

Generally, items for consideration with financing are:

- Interest rate
- If it's variable or fixed
- What amortization period for payments
- Principal and interest or interest only loan or hybrid, (full recourse, non-recourse, partial recourse loan)
- Any pre-pay penalties
- What LTV% for down payment
- Any special lender reporting requirements
- Any (lockbox) cash sweeps for reserve before owner gets paid remaining cashflow, etc.
- Is the loan assumable
- Length of fixed rate loan in years? (7 to 10 preferable)
- Certificate of Insurance for Owner (general landlord insurance policy)
- Engineering Drawings (diagrams of plumbing / electrical / water-sewer plans)



## DUE DILIGENCE FOR RETAIL CENTERS

These are the items that are critical, and should be on your checklist for due diligence on any retail center:

- Condition of Roof (is there a warranty / does it transfer to buyer / roof type / are there more than 2 layers on the roof)
- Geological Reports (what type of soil / any known soil shifting issues / subsidence)
- Flood Zone Reports (FEMA maps / if not in zone, how close is the nearest flood zone)

- Development Agreements ( REA reciprocal easement agreements / CC&R covenants, conditions & restrictions)
- Building Permits (local authority's approval on dev proj.)
- Certificate of Occupancy (C.O.) - (local authority document indicating the space is in a compliant condition for occupancy)
- Certificate of Insurance for Owner (general landlord ins pol)
- Certificate of Insurance for Tenant (tenant biz ins / slip & fall protection)
- As Built Plans / Floor Plans (architectural drawings of the build out with potential modifications made afterwards)
- Survey (basic land survey / \*ALTA L1 survey)
- Engineering Drawings (diagrams of plumbing / electrical / water-sewer plans)
- Phase One Report (any environmental issues with purchased property or others in proximity with issues)
- Termite Report (certifies no ongoing active infestation and shows if any past damage)
- Special Agreements w Utilities/Districts (county/city bonds or special tax financing incentives)

- Licenses and Permits (make sure tenants all have correct docs to operate in good standing with local authorities)
- Monthly Operating Statements & expense reports (profit & loss / CAM common area maintenance statements, e.g. lawn care, trash removal, property mgt, etc)
- Current Rent Roll (complete list of tenants, tenant types, length of lease term remaining)
- Copies of Tenant Lease(s) (original leases + amendments for review)
- Copies of Tax Assessments/Bills (multiple years of tax history and payment history / any outstanding balances)
- Property Management Contracts (agreement to manage the center on behalf of landlord / review the current in-place agreement — decide whether to keep or renew with new co.)
- Maintenance/Repair Contracts (roof cleaning / landscaping / street lighting / etc.)
- HVAC Service Contracts (review heating and air contracts / are tenants following cleaning schedules)
- Trash Contracts (is trash collective by dumpster or individually per tenant)
- Construction Warranties (roof / parking lot/ building)

- Inventory of Personal Property (equip / furniture / tools / computers / etc)
- Seller's Corporate Documents (is the seller incorporated / valid / in good legal standing / confirm stated seller has authority per corporate bylaws to be legitimized as seller)
- ECR Agreement (similar to CC&R)
- Association Cash Reserve Summary (to review health and operation of the association / check for any ongoing or special assessments coming up)
- Estoppel (whatever is part of that association or lease, as it is written is true and correct, and there are no unwritten agreements)
- Association Financial Statements (history of association's methods and future plans if any)
- Association Articles of Incorporation (validity of docs so as to have the power to make decisions)
- Association Current Year Operating Expense Report
- Zoning Confirmation Letter (from city/county confirming property/tenant space is in compliance with zoning law)
- Placer.ai (shows foot traffic around your potential purchase)



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## WORKING WITH A COMMERCIAL MTNL NNN BROKER

An MTNL NNN broker can have very different traits from an STNL NNN broker.

MTNL NNN listing brokers often provide a package of services to property owners. In addition to selling a property for them, they also might do property management on the retail center and also leasing up of some of the empty spaces.

Since these listing brokerages are often doing multiple functions at the same time they tend to be not as efficient as a transaction broker only, as their time is stretched thin. So what happens is communication and responsiveness can break down.

I have found sometimes the listing brokerage will get too comfortable if they have all of your business versus using different companies for specific actions. I don't like thinking one company with a retail center has my destiny in their hands and *all* of the control. If I do agree to one company I set up the agreement so that I can cancel the lease up or management at any time versus a long term one year+ agreement where they could be doing nothing and I am locked in. I want them motivated to keep performing.

If you own a smaller retail center also watch out for working with mega retail property management companies. Sometimes they will take on a smaller retail center in an area if they already have a larger client there with bigger retail centers. As soon as that center sells the property management company now lets the smaller centers they manage slip and no longer do a good job for the property owner.

If you look around you can often find retail property management companies that specialize in the smaller type neighborhood street retail centers of 5,000 to 40,000 sq. ft. They tend to have better systems set up to handle the smaller properties and are more in tune with the tenants that want to lease those types of spaces.

In contrast a transaction-only broker works with the closing of sales and they do not get involved with property management or leasing up of a property. For instance with **NNN INVEST** we work as a buyer's broker on purchasing a retail center. We are there during the whole process of purchasing, giving input while the buyer is reviewing due diligence on a property and working toward closing. Even after the sale, if the owners have questions or want us to look at something, we will review it and give thoughts. We can't really comment on legal advice or tax matters. It can be good to have a transactional broker look at something the owner is dealing with for lease up of the property or a management issue reviewing a management agreement. Since the transaction broker is not involved in the that part of it they can stay objective and give unfiltered comments, whereas a *one-stop* shop has a vested interest

in all the services they are providing so want to position things in their favor. There has to be a happy medium between the landlord owner and the brokerage providing their services. If the agreement is weighted too much to one side the other loses motivation to perform. That is part of the art of the deal—crafting agreements that work well for both parties.

At **NNN INVEST** we have *property management companies and leasing brokers we have worked with before* that have done a good job. Past performance does not guarantee future success but helps to put odds in the buyer and future owners favor of a positive outcome. 

**NNN INVEST** is a transactional broker and consultant and we do not focus on property management or leasing. We believe it's better for other companies to handle that part of the property.



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## CLOSING ON A MTNL NNN PROPERTY

Owning a MTNL NNN property can often times be very rewarding but requires considerable more effort than a STNL NNN property. The misinformation is that there is nothing to do with research when buying a NNN MTNL property. There is a lot of review and steps that go into buying a *good* MTNL NNN property. Notice I said a *good* property. There are tons of mediocre to bad properties out there where a buyer could lose some or all of their down payment investment. Those are easy to buy and hard to get out of.

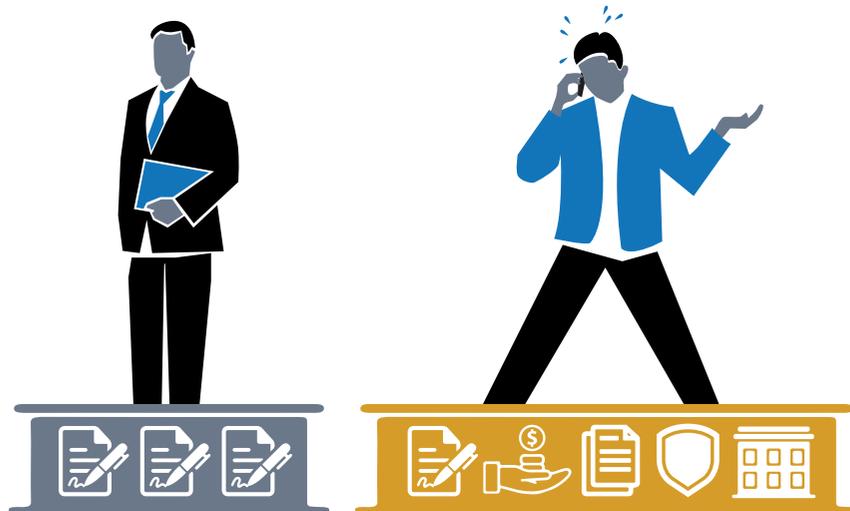
Developers and listing brokers often love new buyers to a space with money because they can easily manipulate them into paying a premium for sub-standard properties. There is a reason the developer doesn't want to own the property long term because the tenant is weak, the location, or *both*.

With buying a MTNL NNN property you need to think about the

value today, the value going forward, and the value when you want to exit the property and buy into something else. After you work on tons of transactions as a broker and also as a buyer yourself you learn things along the way.

Don't work with *dabblers*. These are people that know a little about lots of things but not an expert in anything. They could be real estate brokers, mortgage brokers, commercial attorneys, etc. We ask, for instance, if attorneys practice litigation work along with transactional work. The reason is those attorneys even if competent are often in court and not available to work on a transaction in an expedient manner so the deal takes way longer to close than it should. The longer a deal goes without closing the more expensive the legal fees tend to be and the less chance of it closing due to deal fatigue and other timing factors with the buyer and the seller.

### DON'T WORK WITH DABLERS



#### Transactional Attorney

- Focused on your deal
- Expert in his field

#### "Dabbling"

- Attorney, broker, litigator = BUSY
- Average knowledge spread thin

While under purchase and sale agreement the basic process goes like this.

1. Purchase and sale agreement signed
2. Buyer wires in earnest money and confirmed/received by attorney or title company
3. Escrow is opened and the inspection/ due diligence period starts
4. The mortgage broker receives the term sheet from the lender. The (term sheet) spells out under what conditions the lender will do a loan and requirements to obtain loan approval.
5. Buyer signs the term sheet for lender quote they like and then send in lender's deposit to start the ordering of the reports (Phase One, ALTA Survey, Appraisal, etc.)
6. Reports are bid out by the lender and buyer chooses what timeline and cost provider they want to select.
7. Pre-lim title is pulled and buyer commercial attorney reviews.
8. During due diligence the leases and any amendments are reviewed along with any special association agreements, old survey, phase one, etc. Being that it's a retail center versus STNL single-tenant the leases could all be done by one attorney or different attorneys so you have to look at each lease carefully.
9. Tenant interviews can be conducted if wanted on the businesses in the center. Usually not on the larger credit tenants but the small to medium size companies.
10. Estoppel and SNDA language are approved by lender and buyer's attorney before being sent out to tenant for signature
11. Buyer forms LLC if not already formed for entity to hold the title for property in.

12. Buyer orders engineer inspection of the building
13. As each report comes back any requests are made to the (phase one environmental if further testing is needed, title comments from updated survey, requests for repair with engineer inspection, appraisal review if did not appraise for purchase price or higher).
14. Lender reviews reports in underwriting and then if all looks good approves the loan.
15. A date is set for closing on the property and lining up mortgage docs for signing.
16. The buyer gets the leasing administrator contact for the tenants and gives required information so that tenant can set up payments to the new owner.
17. A change of ownership form is sent to the each tenant notifying them of the upcoming closing with new owner.

Read what some of our happy clients have to say about working with **NNN INVEST**.



# MTNL

## Example HUD Closing Statement & Costs

Summary of Borrower's Transaction	
Contract Sales Price	\$5,237,589.00
Settlement Charges to Borrower	\$122,188.24
Gross Amount Due from Borrower	\$5,359,777.24
Deposit or earnest money	\$100,000.00
Principal amount of new loan	\$3,666,300.00
Commitment deposit with Lender	\$9,500.00
Rate lock deposit with Lender	\$36,663.00
Seller closing cost contribution	\$23,614.27
Rent proration's	\$18,548.90
Security deposit transfers	\$39,706.36
CAM surplus credit from Seller	\$25,268.69
<b>Total paid by/for borrower</b>	<b>\$3,919,601.22</b>
<b>CASH FROM BORROWER</b>	<b>\$1,440,176.02</b>
Summary of Seller's Transaction	
Contract sales price	\$5,237,589.00
Gross amount due to Seller	\$5,237,589.00
Settlement charges to seller	\$290,653.45
Payoff of first mortgage loan	\$3,444,319.40
Escrow - Cam deficit with Umatiya Law	\$17,187.36
Seller closing cost contribution	\$23,614.27
Rent proration's	\$18,548.90
Security deposit transfers	\$39,706.36
CAM surplus credit from Seller	\$25,268.69
Total reduction amount due Seller	\$3,859,298.43
<b>CASH TO SELLER</b>	<b>\$1,378,290.57</b>

Settlement Charges	Paid by Borrower's Funds	Paid by Seller's Funds
Seller 5% to NNN INVEST (off-market property)		\$261,879.45
Loan origination charges	\$36,663.00	
Interest from 7/13/2017 to 8/1/2017	\$8,870.00	
Hazard insurance premium for 1 year	\$8,938.65	
General liability insurance for 1 year	\$1,180.20	
Insurance and tax reserves	\$41,230.38	
Settlement or closing fee	\$595.00	\$595.00
Document preparation preliminary to Law Firm		\$3,000.00
Attorney's fees	\$13,882.91	
Title Insurance	\$100.00	\$24,994.00
State of Texas Policy Guaranty Fee	\$3.00	\$3.00
Courier service	\$200.00	\$55.00
E-recording fee	\$36.00	\$4.00
Survey Amendment	\$3,749.10	
Tax deletion	\$20.00	
Not yet due/payable	\$5.00	
MSD MTP T-19.2 End	\$50.00	
T19 Non-Res. Entdorsement	\$1,801.90	
REM OTP T-19.1 No Amendment	\$3,749.10	
Access endorsement	\$200.00	
Recording Fees	\$258.00	\$34.00
Tax certificates		\$89.00
Tenant SNDA'S recordation	\$406.00	
Signing/Notary Service	\$250.00	
<b>Total Settlement Charges</b>	<b>\$122,188.24</b>	<b>\$290,653.45</b>



**Tim  
Watcke**

*I had contacted Joel as I had owned a larger multifamily building but was looking for more passive type income. **I had received an offer for my multifamily building from a California buyer and wanted to 1031 exchange into a retail shopping center. Knowing I had a tight deadline Joel helped me to locate a center at a great cap rate with a motivated seller.** The property has been going great so far since closing. I look forward to working with Joel in the future when I am purchasing another retail property*

Watch Tim's interview



**Phil Boggia**  
Black Bell Capital

**Joel is unlike any broker I have ever worked with. His vetting process for selecting quality NNN properties with "long term dirt value" is precisely what I was looking for.** Joel took the time to discuss my situation and the cashflow goals I was trying to achieve. He is a wealth of knowledge and answered every question I had throughout the process. I highly recommend Joel for his expert market knowledge, industry relationships and excellent service he and his team provide.



**Jerry Shen**  
Tech Space

*Having **sold my business** I was looking to place my capital for **passive income** while starting up another tech company. I knew I wanted to buy retail but did not know how to evaluate the properties. **Joel helped find me a well located property with high income and great demographics for the area. He was helpful through the whole process and even after owning the property.** I am now looking at buying a second property through him as the experience has been great so far.*



**Dr. Mike  
Magbalon**

*I first heard Joel on a podcast with Bigger Pockets where he seemed very knowledgeable on commercial investing. Months later I reached out to him about a possible investment. He vetted me with lots of questions to gain insight into my specific situation. After our conversation we decided to pursue a deal together. **He opened my eyes to the possibility of commercial investing and getting more passive type returns with NNN properties versus other types of asset classes.** It was definitely a mind shift that he helped me with, along with his expertise that opened up a path towards achieving my real estate and financial goals. I look forward to working with Joel in the future on more deals.*



**Tony  
Frink**

*Transaction with Joel **got bumpy due to COVID**, but we were able to get it done and complete the exchange. **Thanks for sticking with this and getting it done, Joel, look forward to the next one.***

Have you considered buying  
a multi-tenant property with  
**NNN** INVEST?

**START TODAY**

TO WORK WITH  
**NNN** INVEST





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## INVESTING IN A NNN SYNDICATE PASSIVELY

What is a syndicate?

A syndicate is usually a structure whereby *passive* investors that are limited partners (typically *accredited*) invest in a specific property where the syndicator is the general partner. The general partner is the one who makes most of the decisions with the syndication.

The syndicator puts out a flyer or offering about the specific property they want the *passive accredited* investors to invest in. The syndicator then fields inquiries about investing from the investors on their list. There usually is a subscription agreement followed by an operating agreement the investor signs that spells out the syndicate structure, any management fees, percentage ownerships, if someone wants to sell their share early, etc. Basically it covers a

lot of possible events that may or may not happen in the future.

With a syndication it's important to know the experience level of the sponsor for the specific asset class offering the **accredited** investor wants to put money into.

Each syndicator has a different niche they focus on.

For **NNN INVEST** our main focus is **value add** STNL properties. We like to buy those for cash at good pricing and then work to lease up the property with a new tenant and improve the value of the property substantially. Our usual timeline is 1 year to stabilize and an exit in 3 years or refinance and hold.



We offer a 7% preferred return to ACCREDITED investors once the property has a tenant in and the property is cash flowing. Until then there is not a cash distribution. If someone needs a return payout in the first 30 days, we ARE NOT the right choice or option

for an ACCREDITED INVESTOR to invest with us. Our investors understand that we often get a higher cash flow and equity multiple once a tenant is in and leased up and they do not have to have the return right away when the overall return tends to be higher over time. So as an example if a stabilized **value add** NNN STNL property had a starting 14% cash on cash return then 7% would go to the **passive** investors first and then the remaining cash flow would be split 50/50 between the investor and the sponsor for **NNN INVEST**. So 7% **passive** investor plus 3.5% = 10.5% return to investor (limited partner) and a 3.5% to **NNN INVEST** the sponsor (general partner). The property upside after return of capital to the **passive** investors would be split 50/50 with the sponsor.

We like STNL because the property prices tend to be smaller and lots of the buyers on the exit tend to be all cash buyers or very low leverage. They are buying to be **passive** and or for retirement and estate planning so often will pay a premium for the property. Conversely there are other asset classes where the properties are so expensive and so big that they can be heavily affected on resale value in the future with interest rates as carrying a big load of debt. We like the *small ball* stuff as we call it. We like to be nimble and invested in multiple markets nationally for geo-diversification.

**START TODAY**



TO WORK WITH  
**NNN INVEST**



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## TYPES OF SYNDICATES

If someone is an *accredited investor* they often get on people's lists and get pitched all kinds of proposals for investments. Many are not even in the real estate realm. These companies are often wanting to talk an investor into buying anything at anytime.

The more important question is for the investor. Do they like the track record of the sponsor? Do they like the type of strategy the sponsor is wanting to deploy and execute on? Do they believe in the sponsors vision and how they want to create value?

Personally the way I set up sponsor deals can be different from other sponsors. I believe in keeping things vanilla and clear to understand. Some syndicators get into complex tranches of debt structures and waterfalls of when certain hurdles are met, they

make more (and different) series, and rounds have different options for investors to buy into. The other sponsors also can have different stacks of debt with different lenders as well.

I just do not care for the headache all of that presents. I like keeping things simple. People can hide in complexity. When you do simple deals they either work or they don't. You have to watch out for syndicators that LIVE off of their fees going in to deals.

What do we mean by that?

Often people read books about how to become syndicators. They see it as a way to quit their J-O-B and get out of the *rat race*. The problem with that is in the beginning they have little money so the more properties they syndicate the more fees they make going in and the more they hope some of the deals actually work later on. That lends itself to not having the best interests aligned with the *accredited passive* investors because they can syndicate marginal deals in the name of taking fees upfront.

At **NNN INVEST** we are different. As a principal commercial broker I make a lot of money with my clients transacting to buy stabilized NNN STNL and MTNL assets. I take that money and put it into properties myself for value add to turn around with cash. If too much of my cash is tied up in projects at any given time I syndicate the deal with my *accredited investors*. So for me *I only* want deals where I think there is high upside potential for cash flow and equity multiple growth or I am not interested in the property. The fees are not the main driver for my syndicating so the *passive* investors and I have aligned interests both wanting higher cash flow and equity multiples on the back end when the property is stabilized.

I also like STNL NNN *value add* because as soon as a tenant is in and paying with a long term primary lease term, almost 100% of the value is fully realized. This sits in stark contrast to other

syndicators in multifamily, mobile home parks, hotels, offices, building home subdivisions, etc. where the value is created (if all goes well) over typically a 7-10 year timeline. There are so many economic forces in a cycle that can happen during that time where the investment does not reach its full potential as expected. In those cases the property could break even or lose money over time.

There are still some amazing larger property syndicators out there that do a great job, you just have to know how to tell the good ones from the duds. Remember the sponsor can be good but a particular syndicate property could be bad. You are looking for a good sponsor and a solid deal you feel great about investing in. Make sure and ask how often the syndicator gives updates to their *passive accredited* investors and how accessible they are. The sponsor should take the investor's money very seriously and work to protect the money and help it grow. While the sponsor should do their best to make a project successful there are not guarantees of that happening. Any sponsor *guaranteeing* the investment—you should RUN from that sponsor—as they are not being honest about the business.

In addition to syndicates there are also *funds*. Funds are set up differently from syndicates. In a fund you are putting money into a pool of properties the syndicator selects. Basically the syndicator does not have to do a per property raise but rather give a general parameter for the funds goals and allocations.

So in a fund you do not have total control of what you invest in. You have to believe heavily in the company and the sponsor that they will make good choices and be a great steward of your money and help grow it safely over time.

Want to become a commercial syndicator? At **NNN INVEST** we do not focus on training people who want to be syndicators. To read a book that covers syndicating your own deals, we recommend downloading a free copy of a book by Joel's friend, Gary D. Rappaport, *Investing in Retail Properties* at [rappaportco.com](http://rappaportco.com). 



## VALUE ADD PROPERTIES STNL & MTNL

With real estate there are stabilized full value properties for purchase and then there is *Value-Add*.

With STNL NNN there are lots of ways to add value to a property.

***Ground lease — Buy the land only.*** Since only buying the land the rents are typically 50% below market value. If tenant ever leaves, you can release to market absolute NNN rents because usually you get the building the tenant constructed for *free*.

***Buying an absolute NNN STNL property with an in-place lease and tenant but has way below market rate rents for that building space size.*** You can often build in higher annual rental increases because the tenant is paying so low of a rent per sq. ft. they can

make high profit sales per sq. ft.

**Blend and extend** — The tenant might have a few years remaining on the primary term of the lease where you buy for cash as not usually finance-able for a higher cap rate like a 10 cap and then once you negotiate a 10 year or better extension with the tenant now you might sell for a 5 to 6 cap rate.

**Subdividing an oversized lot.** You could have an older building vacant on an oversized lot that can now be de-parcelized to become 2 lots.

**Changing the tenant type.** You could get out a mom and pop tenant and land a national tenant at much higher rents per sq. ft. that sells at a lower cap rate on exit.

With MTNL NNN there are lot of ways to add value to a property.

- Change the mix of tenants at the retail center
- De-parcelize some of the single tenant properties that came with the development. (example buy retail center with outparcels at an 8 cap and then de-parcelize and sell STNL pieces at 4 to 5 cap rates).
- Take extra parking lot spaces not being used close to pylon sign at front of the road and do ground lease, build to suit, etc. to single tenant businesses.
- Keep main anchor tenant but sell off smaller retail centers in the project.

(for **NNN INVEST** to help you facilitate buying a Value Add investment where you own directly, there is a \$3M minimum or higher purchase requirement.)





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## CONCLUSION & TAKING ACTION

As you can see from reading this book there is an entire world of investing relating to STNL single tenant & MTNL multi-tenant properties that a lot of investors are not aware of.

I know with me being in the space almost two decades I have really grown to love this asset class. The diversity and possibilities with the land and building or buildings sitting on them are almost endless.

It can also be more professional dealing with commercial business tenants as a landlord. As an investor you need to decide if this type of investing is right for you at this time, in the future, or both. You could start with value add investing with the **NNN INVEST** syndicate, buy to own directly 100% yourself, or do some

combination of the two at the same time. What's important is that you lay out a plan and take action. Without the compass and taking the steps to get where you want to go it's easy to get lost and sidetracked.

I have what I call my *ideal life* and create a vision around that.

Before investing millions to tens of millions you need to make sure you have the right team of people around you that are each an expert in their field.

I hope this book spurs creativity, dreaming, and imagination as to what is possible with owning and investing in NNN properties. If you asked most people if they could make a mostly *passive* return without worrying about their investment all the time, would they be interested? You would hear a *resounding yes!*

Most people want a simple life with enough money to be comfortable and happy without the headaches and worries.

We hope you enjoyed reading the book and look forward to hearing from you soon in our forums, podcast, and live stream show.

To your best life. May it be all you dreamed it would be.

*Joel A. Owens*  
**NNN INVEST**

START WORKING WITH **NNN INVEST** AND TAKE THE STRAIN OUT OF **GROWING YOUR WEALTH.**



**START TODAY**

TO WORK WITH  
**NNN INVEST**





**ALTA Level 1 Survey**

American Land Title Association; A set of principles and methods for surveying standards; Typically encompasses a combination of a boundary, as-built, and title survey

**Amortize**

Typically the number of years (schedule) 15,20,25,30 that loan payments are based on

**Appraisal**

Report (estimation) completed by a certified appraiser of a property's current market value at a certain point in time

**B****Build to Suit**

Where a landlord constructs a property to a particular tenant's specifications

**Building Permit**

Approval by a local government authority to begin work on a project; Project is monitored from start to completion to make sure quality and safety standards are met according to local building codes

**C****CAM (common area maintenance) Charges**

Charges above the base rent a tenant pays to the landlord; often include property, taxes, property management, landlord insurance, and maintenance to the property

**Cap Rate**

A value commercial real estate typically sells for in a certain market; **Example:** a property bought for \$3 million all cash with a 6% cap rate has a return of \$180,000 annually

**Capital Markets Mortgage Broker**

Commercial loan broker who procures quotes from various lenders and helps a buyer choose one then guides the buyer through the loan process until closing on a property

**Cash Flow**

Amount of profit you bring in after expenses owning a property but before taxes

**Cash on Cash Return**

Cash flow that is measured related to amount of cash invested into a property; **Example:** your initial (going in) cash on cash return could change based on how much money (loan to value) you are putting on a property, the interest rate, and amortization schedule

**CC & R Agreement**

Covenants, Conditions, and Restrictions; a planned development with rules that an owner must follow; read the document before closing on a property to know what obligations you will be taking on as new owner

**Closing Date**

Date when title or the attorney (depends by state) is ready to close the transaction; a lender typically refers to the closing date as the funding date for the loan; all docs must be turned in by buyer and seller to be ready to close along with ender fund (Based on a property with financing)

**CO (Certificate of Occupancy)**

Document issued by local government agency showing a unit or building is suitable for occupancy

**Commercial Retail Attorney**

Attorney specifically focused only on the commercial real estate space (single and multi-tenant properties)

**Controllables**

Items a landlord typically has some control over keeping in a certain budget (maintenance, property management fees, etc.) as it relates to CAM (common area maintenance) expenses

**Corporate Entity**

Entity the property tends to be held in by the owner; it's important make sure the seller signing the purchase and sale agreement has the authority to sell the property and BIND the property owner to sell

### **Cost Segregation Study**

Study completed typically by an engineer firm to break out real property components (electrical, plumbing, carpet, etc.) into shorter life span years ( 5,10,20, etc.) for tax depreciation purposes versus the regular 39 for commercial real estate

### **Credit Rated**

Rated by the public credit agencies like Standard and Poor's as a publicly traded company

### **Cumulative CAM caps**

Limits imposed on how much expenses can rise the tenant pays each year over their base rent; with cumulative any unused amount typically rolls over until the next year; so if expenses are allowed to rise by 5% and they only rose by 3% that year you the property owner could carry over 2% for 7% rise in cost available for the following year

## **D**

### **Daily Feeder Traffic**

Traffic coming from the main road, the large back anchors like Wal-mart, and people walking around; in basic terms the energy intensity with people and cars moving around the commercial property you own

### **Dark Building**

Commercial building where the tenant no longer operates and could be still paying the rent or not; also can be a building the tenant has vacated and no longer operates or has a lease on

### **Debranding**

A demand a tenant makes that is well know when they are leaving a building; they do not want the public recognizing their brand on a building they no longer occupy; so they often want to ask the property owner to de-image the outside shell of the building so it looks like a basic box for the next tenant

### **Debt Service Coverage Ratio (DSCR)**

Cash flow available to pay current debt obligations; lenders have various ratios required for different types of properties; **Example:** if a property brought in \$1.25 in revenue for every \$1.00 in debt the ratio would be 1.25%

### **Developer**

Commercial real estate investors who buy land and develop buildings with business tenants on it; developers can also ground lease the land and the tenant constructs their own building

### **Dirt First**

(NNN INVEST term) - valuing the investment of a property not just by the credit of the tenant or the lease but more importantly long term by the location and quality of the land

### **DMD's (double money deals)**

(NNN INVEST term) - definition used to describe NNN INVEST syndication goal of looking for value add investments that in a 3 year maximum time span double in value once stabilized

### **Due Diligence/ Contingency Period**

Time allowed generally in a purchase and sale agreement (PSA) to conduct inspections, review sellers paperwork, etc. to verify details of a property

## **E**

### **Earnest Money**

Typically a deposit amount put down in good faith based on a certain percentage of the purchase price to buy a property and shows the seller that the buyer is serious

### **Economic Cycles**

Peak (high point), Recession (downward slide), Trough (low point - rock bottom), Recovery (economy improving -upward trend)

### **ECR Agreement**

Similar to CC&R's

### **Environmental Phase One**

typically checks for any contamination issues of the building and land a buyer is purchasing; also looks at other sites within close distance to assess risk to the site being purchased

### **Equity Multiples**

How often the initial invested money doubles for overall return; **Example:** \$100k invested in a property to \$200k overall return is a 2X equity multiple

**Estoppel**

Signed document from a tenant stating that the shown lease and any amendments are true, accurate, and no verbal or unknown written agreements exist

**Expansion Plans**

National, regional, franchisee, or mom and pop business tenant's plans to add more locations in cities, counties, states, and other regions of the country

**F****Fund**

A type of syndication strategy whereby instead of an investor deciding to invest in a certain property they invest with a certain company (fund); that company has a pool of money that they allocate how they want over a certain period of time; if the money is not invested in the allotted time the money is returned to the investors; *caution is advised due to the fact that fund managers occasionally might buy more marginal properties toward the end of a time limit when they need to deploy remaining capital of the fund*

**G****General Partner**

Person or group that runs a syndication and makes most of the decisions

**Geo-diversification**

Investing in multiple markets and locations so not all your investment dollars or assets are in one spot

**Ground Lease**

Tenant constructs building and leases the land from the owner

**I****Illiquid**

Money tied up in hard assets, e.g. personal/investment property, retirement funds, etc. making it difficult to access as cash

**Insurance Certificates**

Policies by the landlord and tenant showing adequate coverage for property, businesses, and real estate

**Investment Grade**

BBB - or better rated by Standard and Poor's Credit Rating Agency; Fitch's and Moody's also have other ratings but many lenders look at Standard and Poor's as the guide to follow

**L****Landlord**

Land owner; also could be building and land owner

**Leasehold**

Owner owns the building but not the land

**Leases**

Agreements between business(es) and landlord which define rent payments, guarantees, rental increases, sales disclosures, length of primary rental term with options, etc

**Leasing Commissions**

Fees paid to NNN leasing brokers for procuring a tenant to fill a space whether a single or multi-tenant building

**Lender**

Institution such as a bank, credit union extending money and credit to a purchaser wanting to buy an asset

**Limited Partner**

Passive investor who has invested in a syndication in which the general partner makes most of the decisions

**Liquidity**

Cash on hand, bank accounts, stocks, etc; funds easily convertible to cash

**Loan to Value (LTV)**

An assessment of debt risk that lenders examine before approving a mortgage; Example: Building has an appraised value of \$2M and the lender approves a mortgage on the property of \$1.5M, the resulting LTV = 75%

**Loan-To-Cost ratio (LTC)**

Metric used in commercial real estate construction to compare the mortgage on a building with the cost to build

**LOI (Letter Of Intent)**

Non-binding document spelling out under what conditions a buyer would like to purchase a property from a seller/owner

**M****Market Rents**

Amount of rent that can be expected for a property in comparison with similar properties in the nearby area

**Mortgage Paydown**

A way to build equity in a property over time reducing principal balance owed on a loan

**MTNL**

Multi-Tenant Net Lease; lease used in a building of various tenants (as little as 2 to over 50 in some cases) that has base rent plus CAM where tenant reimburses landlord for the expenses

**N****Neighborhood Street Retail**

Pedestrian-centric retail center providing goods and services accessible from a sidewalk; includes retail stores, groceries, etc.

**Net Worth**

Individual financial worth determined by a simple sum of total assets (liquid and illiquid) minus total debts

**NN Lease**

Similar to NNN lease, differentiated by the taxes, insurance and maintenance being the responsibility of the tenant OR the owner based on the lease terms

**NNN Broker**

Real estate broker or agent that specializes in transacting single tenant and multi-tenant properties for buyers and sellers; they get paid a fee from the seller, the buyer, or BOTH depending on the deal

**Non-controllables Items**

**Example:** Expenses like property taxes where the owner has no control over what is being charged from the local authority; in a multi-tenant net lease these items are included in CAM items above base rent being charged; this is paid as additional rent (CAM) to the landlord

**Non-cumulative CAM caps**

A ceiling on annual increases in CAM (controllable) expenses; does not allow landlord to recover any unused increases from previous years

**O****One economy towns**

A town has one main larger employer and, if that business goes dark, a domino affect of remaining mom and pop companies begin failing and people start leaving the area

**Operating Expenses**

Cumulative amount of dollars required to operate a commercial retail property; includes rent, CAMs, utilities, etc.

**Ownership Documents**

Signed documentation to show details of and proof of ownership

**P****Passive Returns**

Net monetary gains without effort or headaches of property management

**Personal Guarantee**

Guarantee that can be partial or full-recourse for the individual and cover one or more of their properties (cross-collateralize)

**PFS (Personal Financial Statement)**

Detailed spreadsheet to show an individual's assets, liabilities and routine expenditures; used to determine a detail of Net Worth & Liquidity

**Phantom Income**

Income that a business owner has to pay taxes on despite not having received any cash to pay the tax from the business; problems arise because of the difference between allocating income to owners for tax purposes and distributing actual cash; please check with your CPA or tax professional on any tax topic related to potential phantom income questions

**Preferred Return**

Operational income % that is allocated up to a certain rate of return to an investor, before other distributions can be made to the General Partner

**Profit & Loss Statements**

Documentation showing all incoming financials as compared to outgoing expenses on a given time period; typically quarterly and annually

**Property Management Company**

Third party retained for a monthly management fee to oversee tenant usage of a commercial property on behalf of the owner

**PSA (Purchase and Sale Agreement) / also SPA**

Binding legal contract that obligates a buyer to buy and a seller to sell a commercial property

**R****Real Estate Professional Status (REPS)**

A designation given to anyone that qualifies to claim that they work on real estate and related work most of the time (750 hrs annually); the law includes additional benefits to REPS; full-time Brokers and Agents typically automatically qualify for REPS; those not licensed trying to claim the deduction must get with their tax professional for legal advice and steps required by the IRS to follow

**REITs**

Companies that own, operate, or finance income-generating commercial real estate; similar to how a mutual fund works for individual personal finance investors

**Report Vendors**

Third party companies that are contractually obligated to provide valuable reporting on elements required for purchase or sale of a commercial property

**Retail Leasing Broker**

Commercial real estate professional who helps advise tenants and/or landlords during the leasing process

**S****Sale Leaseback**

Company or individual who sells a commercial property and immediately leases it from the new owner

**Service Contracts**

Contracts in place or required to be, to service the utilities, maintenance, etc. of a commercial retail property

**Site Inspections**

Analysis and legal reporting of the land on which the commercial property resides and the building itself; includes environmental, drainage/erosion, building viability, needed repairs; property must pass inspections prior to receiving certificate of occupancy

**SNDA**

Subordination, non-disturbance, and attornment agreement which lays out certain rights of the tenant, the landlord, and related third parties; usually a beneficial document for all parties; these are typically ordered by the lender; language of the SNDA form has to be reviewed approved by lender and tenant

**Standard & Poor's (S&P)**

A leading company which operates as an index provider and data source of independent credit ratings on businesses

**Standard Depreciation**

Using the basis of 39 years to equally depreciate an asset (such as a commercial property) for annual taxation purposes

**Stepped Up Basis**

Adjustment in the cost basis of an inherited asset 'stepped up' to its fair market value on the date of the decedent's death

**STNL**

Single Tenant Net Lease; typically a stand-alone commercial building owned by an investor and leased to a tenant

**Structured Depreciation**

The ability to show a tax loss which can more than cover principal payments for the first 10 to 15 years of a loan

**Subsidiary**

A subordinate company controlled by a larger holding company

**Sweet Spot**

Subjectively, the fine tuning of negatives and positives, risk and reward to discover the best location for a NNN lease/ the best scenario for profit-generating income vs. risk of investment, etc.

**Syndicate**

Limited partner; one in a group (of syndicates) who mutually invest in the same commercial real estate for the purpose of collectively affording a larger property and receiving benefits otherwise unrealized as an individual investor (higher net gains, better rates of return, lower interest rates on loans, etc.)

**T****Tenant**

Company or individual leasing the property from the owner on a pre-determined duration of 5, 10, 15 years or more

**Tenant Cycles**

Beginning with site selection, and progressing through an offer to lease, the lease itself, through periodic lease renewals, often to assignment, and eventually to termination (e.g. sale of building, folding of tenant company, natural disaster, etc.)

**Tenant Improvements (TI)**

Work undertaken by the tenant to improve on a commercial property; invariably increases the overall value to the owner while being an expensible cost write-off for the tenant; on certain occasions the landlord does TI on behalf of the tenant

**Title Company**

Entity responsible for verifying the validity of a commercial property's ownership and title; legally required to be engaged during the purchase or sale of any commercial real estate

**Title Policy**

Insurance policy meant to protect buyers and mortgage lenders from damages or financial losses caused by a bad title due to title defects

**U****Unsubordinated Lease**

Landowner maintains its first position in the hierarchy of claims on the asset; in this case, a lender would not have the right to take back the land in the case of a default by the tenant

**V****Value Add**

NNN INVEST term which describes the purchase of a 'dark' building, seeking syndicate investors to join a 3-year investment cycle; during the cycle the building is repaired and leased, adding immediate appreciation to the property value with the additional benefit of cashflow from tenancy; the property is sold and the gains are distributed to the limited partners and the general partner

**Vehicle Stacking**

Refers to QSRs and other commercial property's ability to hold a certain number of vehicles without causing traffic issues; higher stacking capability increases the value of the asset for investment purposes

## Z

### **Zero Cash Flow**

All monthly rent paid from the business tenant to the property owner goes to pay the mortgage; equity builds up faster and loan is paid off typically at the end of the primary tenant lease term

# NNN RICHES

PASSIVE | REAL ESTATE | WEALTH

Joel S. Owens



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